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ABSTRACT

The purpose of this guide is to provide state and local Job Training Partnership Act (JTPA) program administrators with an approach to developing meaningful and relevant negotiated performance standards that will serve as a management and evaluation tool. The guide is organized in four chapters. Chapter I provides background information on the legislative and administrative history and evolution of performance standards. It provides an overview of the performance standard system as set forth by the U.S. Department of Labor and discusses performance standards within the context of overall program management. Chapter II examines performance standards as an integral part of the program planning process. It reviews the functions of strategic and operational planning and the ways that program officials can select their strategies to meet local needs and circumstances. Chapter III provides the framework for a negotiated approach to setting performance standards and examines the Department of Labor's adjustment model, its major limitations, and the key issues for undertaking a negotiated approach. Chapter IV focuses on the negotiation process, discussing several important issues that states and service delivery areas (SDAs) must resolve when negotiating their performance standards. These issues include establishing the basis for negotiation; developing tools for further quantifying adjustments to the model-predicted performance scores; negotiation and its relationship to 6 percent incentive funds; establishing a framework to support a negotiation process; and state and SDA roles in establishing a negotiation process. (KC)

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Technical Assistance Guide

Beyond the Model: An Approach to Negotiating JTPA Performance Standards

Prepared By:

National Association of Counties (NACo)
National Governors' Association (NGA)
National Association of Private Industry Councils (NAPIC)

February 1986

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TECHNICAL ASSISTANCE GUIDE

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Preface

Section 106 of the Job Training Partnership Act (JTPA) directs the Secretary of Labor to establish performance standards for adult, youth, and dislocated worker programs. In accordance with the Act, the Secretary of Labor established national performance standards based on Comprehensive Employment and Training Act (CETA) data for the initial nine-month period of JTPA and for the first program year. For Program Year 1986 (PY86), the national standards for Title II A (and a goal for Title III) are based on PY84 JTPA data.

These data reflect actual experience of SDAs. Now that JTPA has a performance history, performance standards have become increasingly important to program administrators and policy makers as management tools and benchmarks of outcomes.

No issue has received more attention from States and Service Delivery Areas (SDAs) than this one. The policy issues involved in developing and implementing a performance standards system have been the subject of much deliberation and debate.

In an attempt to meet the legislative intent of JTPA to increase employment and earnings of participants and decrease dependency on welfare programs, the National Association of Counties (NACo,, the National Governors' Association (NGA) and the National Association of Private Industry Councils (NAPIC) have joined together to develop and disseminate guidance to help state and local level managers in the JTPA delivery system, to venture "beyond the model." Practitioners have found that in some instances, further adjustments are needed beyond the Department of Labor's adjustment methodology.

This Technical Assistance Guide was designed to provide assistance in planning and developing negotiated JTPA performance standards. The performance standards system and the DOL adjustment model attempt to accomodate service to the more disadvantaged, (particularly individuals with less education and other "hard to serve" groups), and more extensive and more comprehensive services, by holding SDAs harmless for the generally lower outcomes experienced by such participants. It is possible for states, service delivery areas, and private industry councils, however, to make further adjustments and cooperate creatively in negotiating standards that will support and enhance both local and state goals.

Performance standards are generalized benchmarks or measures, but they are prescriptive by nature. They are based on data that can provide information on relative and absolute program performance. They can provide a framework for program planning. They also provide a measure of progress. Performance standards adjustments can be a valuable tool to assist states and service delivery areas in planning programs and in serving the "hardest to serve."

This Technical Assistance Guide was developed for planners and administrators at both the state and local service delivery area levels. It should be of particular interest to private industry council staff who might have concerns over service mix or target populations.

The idea for a Technical Assistance Guide that ventures "Beyond the Model" and provides "An Approach to Negotiating Performance Standards" eminated from conversations with members of the United States Department of Labor Advisory Committee on Performance Standards. Kay Albright, formerly Director of the Office of Performance Standards and Program Review of the U.S. Department of Labor and now Research Associate with the National Governors' Association, Lori Strumpf, Assistant Director of the National Association of Private Industry Councils, and Roxie Nicholson, formerly Senior Research Associate at NACo, now Policy Analyst at the U.S. Department of Labor agreed to devote time to develop this manual.

Ms. Albright served as principal author of Chapter 1, introduction. Ms. Strumpf developed Chapter 2 on planning and performance standards. Ms. Nicholson provided overall guidance and review of the technical content, along with all the authors. Jeff Zornitsky, Senior Economist, Abt Associates, performed the technical work and developed the core material for chapters three and four. This Guide represents a true joint venture, with all that that implies, among NACo, NGA and NAPIC. All three organizations contributed both time and staff resources to make this Guide possible; NACo provided the financial resources for the technical consultants, and for printing and distribution.

The authors of this manual wish to thank the many people at the national, state, and local level, particularly Sue Manzo, Nancy Bross and Chris King, who reviewed the content and provided their thoughtful suggestions. We particularly wish to thank Hugh Davies and Karen Greene of the U.S. Department of Labor for their outstanding work in performance standards and their input into this Guide. Despite the fact that we did not always agree on issues, the professional discussion greatly enhanced the final product. We also wish to thank Janet Reingold, J.R. Reingold and Associates, Inc. for editing the final manuscript under stringent time pressures. All of the authors worked on this project in hopes that it provides benefits to the practitioners in the training and employment system.

The usual disclaimers apply. While we received valuable input and guidance from dedicated individuals within the U.S. Department of Labor and elsewhere, responsibility for the content (and any errors herein) rests solely with the authors. <u>This Guide does not represent the official policy of the Department of Labor or any of the sponsoring organizations</u>. Furthermore, since this entire Guide ventures "Beyond the Model", States and SDAs are cautioned that individualized approaches may remove the protections that are afforded by the model.

Use of This Guide

This Technical Assistance Guide was developed for use by State, SDA and PIC staff who play a role in the process of planning, administering programs, or monitoring performance against standards.

It will most probably be read by both novices and experts in the field. For those who are new initiates to the field of performance standards, the authors recommend reading the entire Guide. For those practitioners who are seasoned experts in the field, the authors recommend reading only chapters 3 and 4.

Regardless of the level of expertise of the reader, it is recommended that this Guide be used in conjunction with (not in place of) the Department of Labor's Guides for Setting JTPA Title II-A Performance Standards for PY 1985 and PY 1986.

Users of this Guide are urged to keep in mind that the DOL PY85 and PY86 adjustment models reflect actual experience under JTPA. However, it is too early to determine all of the impacts of the PY86 model, and the extent of the further adjustments that will be required.

We are just beginning to develop experience using the PY86 adjustment model. It is likely that practitioners will be able to offer solutions to some of the issues that we are unable to solve at this time. Your comments and input are welcomed.

EXECUTIVE SUMMARY

The Job Training Partnership Act (JTPA) delivery system is constantly challenged to improve the efficiency and effectiveness with which it operates. Congress and the public hold job training program operators accountable for their investment in human capital, and the return on this investment.

It is within this context that the Secretary of Labor is required to develop national program performance standards, and Governors are permitted to prescribe variations to adapt these standards as necessary to their own specific economic, geographic, and demographic circumstances.

The purpose of this Guide is to provide state and local level program administrators and planners with an approach to developing meaningful and relevant negotiated performance standards that will serve as a management and evaluation tool.

The premise is that national performance standards are necessary and are useful as a guage to judge nationwide success of JTPA. However, local service delivery areas face factors and circumstances unique to a specific jurisdiction which may need to be taken into consideration in planning, operating, and evaluating local programs. Thus, DOL developed the adjustment models which take into account some of the unique local circumstances.

This Guide is designed to offer some technical assistance to program officials to venture beyond the models in setting local standards. The system permits adaptation to local needs; this flexibility provides enormous opportunity.

This Guide was developed jointly by the National Association of Counties (NACo), the National Governors' Association (NGA), and the National Association of Private Industry Councils (NAPIC) in the belief that states, service delivery areas, and private industry councils may want to use the flexibility within the system to fine-tune their own program planning and management systems, and that the performance standards adjustment process provides a vehicle to do so.

Chapter I provides some background information on the legislative and administrative history and evolution of performance standards. It provides an overview of the performance standard system as set forth by the U.S. Department of Labor, including the measures, and the procedural parameters. Finally, it discusses performance standards within the context of overall program management.

Chapter II examines performance standards as an integral part of the program planning process. It reviews the functions of strategic and operational planning and the ways that program

officials can select their strategies to meet local needs and circumstances, rather than to meet nationally prescribed numeric goals. Performance is the ultimate focus, not the performance standards.

Chapter III provides the framework for a negotiated approach to setting performance standards. It examines the Department of Labor's adjustment model, its major limitations (such as targeting, labor market conditions, and program intensity), and the key issues or groundrules for undertaking a negotiated approach.

Chapter IV focuses on the negotiation process. A negotiated approach to setting JTPA performance standards can significantly benefit both states and SDAs. It can be used to support state and SDA targeting policies to serve those most in need of training and employment assistance. The chapter discusses several important issues that states and service delivery areas must resolve when negotiating their performance standards. These issues include: establishing the basis for negotiation; developing tools for further quantifying adjustments to the model-predicted performance scores; negotiation and its relationship to six percent incentive funds; establishing a framework to support a negotiation process; and state and SDA roles and responsibilities in establishing a negotiation process.

CHAPTER I
Overview of Performance Standards

CHAPTER I

Overview of Performance Standards

INTRODUCTION

Section 106 of the Job Training Partnership Act (JTPA) requires the Secretary of Labor to select performance measures and establish national standards for adult and youth training programs under Title II-A and dislocated worker programs under Title III. On the basis of the Secretary's performance standards, Governors must set standards for each of their service delivery areas (SDAs). For each program year, the Secretary provides revisions to the Department's adjustment methodology for the standards, based upon the newly available JTPA data.

JTPA provides that the Governor has the right and the responsibility to adjust the national performance standards to meet particular local economic, geographic, and demographic conditions.

Chapter I of this Guide provides some background information for state and local program managers and planners, on the origins of the current performance standards system, and the application of these standards within the context of overall JTPA program management.

BACKGROUND

The idea of measuring the results of training and employment programs is not new. Since their inception in the early 1960's, training and employment programs have been the subject of intensive research and evaluation, all designed to determine the effectiveness of various approaches. It has also been common practice to set programmatic goals, particularly at the program operator level, as part of the planning process.

During the 1970's, under the Comprehensive Employment and Training Act (CETA), the Department of Labor (DOL) made serious efforts to define program success and to determine how it should be measured at the local level. Several alternative methods of establishing realistic expectations for local programs were tried.

The traditional approach to determine programmatic success was to assess how well a program performed at the end of a year against its planned goals for a particular objective such as job placements. This approach, assessing "planned vs. actual"

performance, had some clear limitations. The primary limitation was that "planned vs. actual" assessments had little to do with whether the level (or number) of results or outcomes was appropriate given the client population. Instead, this approach simply analyzed whether the program had made good planning judgments.

Another approach used to negotiate numerical goals was the incremental approach, which required incremental improvement in performance over the prior year's performance (usually expressed in terms of a certain percentage improvement). The problem with this approach is that it is unfair to programs which are already performing well. It is much more difficult to improve by 10 percent if the program has a 75 percent entered employment rate than to improve by 10 percent if the program has a 40 percent entered employment rate. The incremental method does not work well for all programs, but it does have some value for programs which need to improve performance substantially.

As training and employment professionals recognized the limitations of past approaches, other methods of assessing performance were tested. Much of the impetus to improve how CETA programs were assessed resulted from the 1977 CETA amendments which required performance standards for the first time. Early attempts to move beyond "planned vs. actual" included the identification of factors believed to influence performance and negotiation between prime sponsors and DOL regional offices to change individual entered employment rates based on these factors. A CETA Performance Standards Workgroup was formed in 1980 to attempt to develop a method to quantify the factors believed to affect performance. This effort was based on work done in the state of Massachusetts to use multiple regression analysis to identify and quantify factors affecting performance. This regression model was used as a benchmarking system by the DOL regional offices in 1980 to assess prime sponsor performance.

LEGISLATIVE BASIS UNDER JTPA

The emphasis on performance in the Act is clear. Section 106 outlines in detail the time frame for development of performance standards, the content of the measurement system, and the responsibilities for a performance-based system. Section 106 of the Act characterizes the JTPA program as an investment, the return on which is to be measured by participants' gains in employment and earnings and reductions in welfare dependency. (See Appendix A, which excerpts Section 106 of JTPA.)

The approach to performance standards under JTPA differs from earlier attempts to gauge performance in two principal ways. First, JTPA emphasizes performance, or program outcomes rather

than the processes used to achieve these outcomes. The intent of the Congress was to develop criteria for measuring the return on the investment in human capital. The process was only a means to achieve the desired result.

Second, JTPA suggests a systemmatic, uniform approach with factors and measures that comprise the standards and prescribed methods for calculating the expected outcomes. Under JTPA, there is an objective tool (the DOL adjustment methodology) for determining how well a local administrative entity performed, given its local conditions.

OVERVIEW OF THE PERFORMANCE STANDARDS SYSTEM

In accordance with the statutory directives, the Secretary of Labor established seven performance measures. In addition, DOL issued national numerical standards for each measure. The national standards for the initial nine months of JTPA and for the first two program years were developed from FY82 CETA data. For program year 1986, the Department revised the national numerical standards based on PY84 JTPA II-A performance data.

The Secretary's performance measures and associated standards for PY86 are:

Adults

- Entered Employment Rate - Number of adults who entered employment as a percentage of the number of adults who terminated: 62 percent. (55 percent in PY85)

- Cost per Entered Employment - Total expenditures for adults divided by the number of adults who entered employment: $4,374. ($5,704 in PY85)

- Average Wage at Placement - Average wage for all adults who entered employment at the time of termination: $4.91. (same in PY85)

- Welfare Entered Employment Rate - Number of adult welfare recipients who entered employment at termination as a percentage of the number of adult welfare recipients who terminated: 51 percent (39 percent in PY85)

Youth

- Entered Employment Rate - Number of youth who entered employment at termination as a percentage of the number of youth who terminated: 43 percent. (41 percent in PY85)

- Positive Termination Rate - Number of youth who entered employment at termination, plus the number of youth who met one of the youth employability enhancement definitions at termination: 75 percent (82 percent in PY85)

  (Youth employability enhancements include:

  a) attained PIC recognized youth employment competencies

  b) entered non-Title II training

  c) returned to full-time school

  d) completed major level of education

  e) completed program objectives (14-15 year olds))

- Cost per Positive Termination - Total expenditures for youth divided by the number of youth who entered employment at termination plus the number of youth who met one of the youth employability enhancements definitions at termination (see above): $4,900. (same in PY85)

The real "standards" are those established by the state for or with local service delivery areas (SDAs). Performance against these standards determines whether the SDA is eligible to receive an incentive award or will require technical assistance. JTPA provides the Governor both the right and the responsibility to adjust the national performance standards to meet conditions in the particular service delivery area. The Governor may adjust the national standards within parameters established by the Secretary as specified in Section 106(e) based upon:

> "specific economic, geographic, and demographic factors in the State and in service delivery areas within the State, the characteristics of the population to be served, and the type of services to be provided."

The parameters established by DOL include the following:

1. Procedures must be:
   - Responsive to the intent of the Act,
   - Consistently applied among SDAs,
   - In conformance with widely accepted statistical criteria;
2. Source data must be:
   - Of public use quality,
   - Available upon request;

3. Results must be:
   - Documented,
   - Reproducible; and
4. Adjustment factors must be limited to:
   - Economic factors,
   - Labor market conditions,
   - Characteristics of the population to be served,
   - Geographic factors,
   - Types of services to be provided.

To assist states in establishing local performance standards which take into account some of the economic and demographic factors believed to influence performance, DOL provided the same type of regression models as developed under CETA. The models could be used by states at their option to make initial adjustments for local factors, or they could use the unadjusted national standards, or whatever other approach they choose.

States which used the models were also allowed to make further adjustments for local conditions as long as they followed the procedures (the parameters) described earlier. This approach allowed the national level to establish specific measures used by all programs, but allowed maximum discretion to the states to enable SDAs to design programs which would meet the needs of their clients locally.

The performance standards system allows the state to make judgments about which programs were a "success," not by rank ordering SDAs on a specific measure but by determining how much the SDA actually varied from the model-predicted standard (plus any other Governor's adjustment). (For example, an SDA with a model-derived entered employment rate of 40 percent and an actual entered employment rate of 60 percent really performed better than an SDA with a model-derived entered employment rate of 51 percent and an actual entered employment rate of 60 percent given the apparent differences in local conditions.)

One of the hallmarks of JTPA is the strong emphasis on performance--not necessarily performance standards. Standards are primarily a management tool for state and local program operators, and are one way for the Congress to know whether the investment in job training programs is worthwhile. Performance standards are flexible enough to allow Private Industry Councils and local program administrators to serve clients of their own choosing using interventions deemed appropriate to obtain employment in order to increase both the employment and earnings of the participants.

CHAPTER II

Performance Standards and the Planning Process

INTRODUCTION

Chapter II examines the performance standards within a program planning context. This chapter explores the planning process with performance standards as one functional element within that process. The model-derived performance standard, or number, should be viewed as an expectation based on local conditions. If local conditions warrant the use of other data or additional factors, the planning process should provide this opportunity.

PLANNING OVERVIEW

Planning means choosing from alternative courses of action in order to reach selected goals. Generally there are two types of planning:

- Strategic planning -- a long term process for defining overall missions, goals and objectives, and
- Operational planning -- a shorter term process for managing programs on an on-going, day-to-day basis.

Strategic planning functions may include:

- defining mission
- setting goals and objectives
- analyzing the current labor market and trends
- identifying available resources
- identifying overall strategies to achieve goals

Operational planning functions may include:

- fine tuning program plans, including numbers to be served, program mix, duration and sequencing, and client mix
- selecting service providers and negotiating contracts
- training staff and delegating responsibilities

PLANNING STEPS

Generally, the process for planning is a continuum along which important decisions must be made. The process includes:

- Needs Assessment: The assessment may focus on target client groups, employers, the community, the labor market, or any combination of these. Using available information on the labor market experiences of the disadvantaged, as well as lessons from previous program years, states and SDAs identify the universe of need and the nature and causes of the hardships in the labor market. The needs assessment provides the rationale for the programmatic approach by setting the framework for program objectives.

- Assessment of Resources: Once the needs are identified, the resources available to address these needs must be considered. This includes organizational (staff, financial) resources, community resources, and linkages. An assessment of this type will help define realistic parameters for setting program goals and objectives, and maximize coordination.

- Goal Setting: Using the data collected on needs and resources, within the framework of the organizational mission, the formulation of realistic program goals is possible. Goals should be clearly stated, as they guide program operations and evaluation efforts. A number of important decisions must be made during the goal setting process: 1) who will be served; 2) how will they be served; and 3) what are the expected outcomes. The decisions made about these three areas will help shape the program strategy.

- Operations: With goals and objectives identified, it is now possible to plan management systems, program elements (services, who will deliver them, the best mix of services for the particular target group), and specific tasks. The overall program strategy should reflect the outcomes of the preceding planning steps.

- Evaluation: Finally, the program results should be measurable. The required performance standards will set some indicators of program success, but a method for measuring success, including management or staff performance, must be considered.

Where does the calculation of performance standards fit into the planning process? If the performance standards dictate the program decisions, the planning process may be constrained. This

may do a disservice to potential participants as well as to the employer community. Performance standards must follow decisions about who to serve, with what types of strategies. It must be noted that one of the major planning differences between CETA and JTPA is that under JTPA, planning is based on terminee (as opposed to participant) characteristics. Planning becomes a more sophisticated process because it is planning for outcomes as opposed to process.

Exhibit A illustrates the steps in the planning process, and the use of performance standards as a functional element of planning and management.

ESTABLISHING GOALS AND OBJECTIVES AND SELECTING PROGRAM STRATEGIES

Upon assessing the potential labor market, identifying the eligible population, and assessing both client and employer needs, programs can set realistic goals and objectives that have the potential to match services to participants and to match participants to potential employers. It is at this point that the performance standards play an important, and initial role in the planning process.

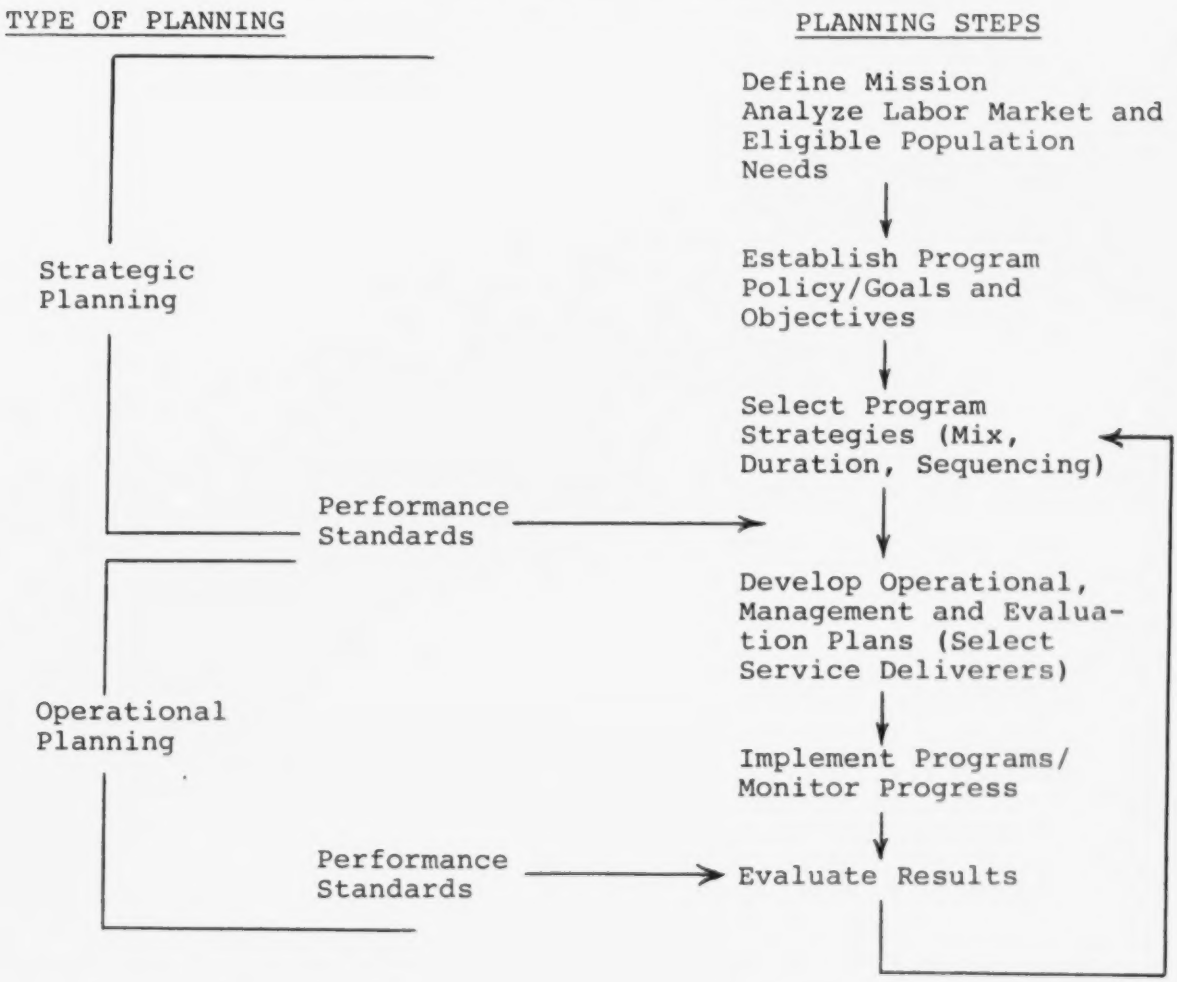
Program planners must assess the eligible population and the labor market to determine who to serve and what services to provide. Then questions are answered within the overall policy framework that the PIC has established.

For instance, program planners may be concerned about the large number of high school dropouts among both its youth and adult population. A board of education survey may document that the dropout rate is high. During the planning process, employers are surveyed to ascertain what they look for in entry level workers. The responses indicate that most employers want employees who have basic work habits, good attitudes and basic academic skills, particularly math and reading. An assessment of the JTPA eligible client pool indicates a higher proportion of dropouts in the eligible population than in the general population. Among the eligible dropouts two things are apparent--generally they read, write and compute at below grade level and they have poor work histories.

Given this set of circumstances, one goal might be to target both adult and youth dropouts to increase basic skills and work experience so that they may get and keep entry level jobs in the community.

EXHIBIT A

Performance Standards and the Planning Process



Program strategies may include:

- Basic skills remediation classes for youth
- Adult basic education classes
- Work experiences

The anticipated program outcome for adults is placement and for youth in this instance is either attained youth competencies, return to school, or placement. However, the kind of training required may take longer than "average" and may cost more to achieve results. Rather than adjusting services provided, and target populations to fit the standard, program planners may adjust the standards to fit local needs.

If the standard were imposed at the front end of the process, the planners might not exercise the flexibility available in choosing who to serve.

The focus on performance under JTPA allows programs to develop a process by which they can manage their performance levels.

Performance standards must be viewed within a local service delivery context. Under JTPA, program planners are in a position to identify the impact that they wish to have on the local eligible population and on the labor market. Performance standards can be viewed as a tool, not a "rule." Local decision making based on the needs of the eligible population and the needs of local employers can be accounted for within the existing performance standards system. And, the performance standards system can be molded to meet local needs and priorities.

PROGRAM EVALUATION

Performance standards also play a critical role during the evaluation phase of the planning and management cycle. They provide indicators of success, and some information on areas requiring further attention. This information should be fed back into the planning process.

CHAPTER III

Beyond the Model: The Need for a Negotiated Approach to Setting Performance Standards

CHAPTER III

Beyond the Model: The Need for a Negotiated Approach to Setting Performance Standards

INTRODUCTION

Program planning in the JTPA system has become more sophisticated and rigorous. Increased private sector involvement and growing cost consciousness among administrators and the public have necessitated performance improvement. Improved information about labor market obstacles and program effectiveness has contributed to a better understanding of how to serve current and future program participants. Yet at the same time, there has been concern over how to use performance standards to support state and SDA programs and policies.

The statistical adjustment models developed by the Department of Labor to set performance standards are but one part of the JTPA planning process. To the extent possible, the models adjust performance standards on the basis of variations among SDAs with respect to the characteristics of clients and the condition of the labor market. This model-derived performance level then becomes the basis for establishing a standard, after considering the influence of other factors not accounted for by the model. States may further adjust the model-derived performance standard, or they may elect to use the standard derived through the adjustment model.

The need to consider further adjustments to the statistical models can be seen from several different perspectives. From a technical perspective, some individual characteristics that influence employability, such as age, race, sex, and education, are included in the adjustment models and are factored into performance standards calculations. Others, however, such as basic skills and world-of-work knowledge are not now, but need to be considered in the standard-setting process. Moreover, unique service mixes and the structure of local labor markets are also important determinants of performance and require careful consideration in setting standards.

To the extent that standards-setting is limited to the model-derived standards, program planners may limit their flexibility to respond to both participant and employer needs effectively. Performance standards-setting must be viewed as an interactive process that builds upon the statistical models by accounting for the expected influence of other important factors that bear upon an individual's status in the labor market and a program's ability to improve long-term earnings and potential.

From a state perspective, further adjustments to the statistical model can create a more flexible atmosphere for supporting state policies and providing relief from what may be perceived as a constraining performance standards system. For example, a state may develop policies aimed at increasing services to the most difficult to serve, such as teenage mothers. In this case, adjustments to the model-adjusted performance standards may be warranted in those SDAs where such services were planned.

In a similar vein, a state may develop coordination policies aimed at forging cooperative links between SDAs and state agencies responsible for serving particular target groups such as refugees. However, SDAs may be reluctant to serve such individuals in large numbers without further adjustments to their performance standards. By making such adjustments, states may facilitate service provision to these groups and enhance coordination.

In the broadest sense, going beyond the model will provide states with substantially more opportunities to direct employment and training programs in a manner consistent with both their policies and priorities and the needs of prospective participants. It will allow them to support SDAs who wish to deviate from the existing standards and to take risks or new initiatives that otherwise may not be considered practical.

It will provide SDAs a mechanism for more closely linking the employability and earnings of locally eligible participants with the types of programs that will ultimately be designed and delivered.

This chapter provides background for a negotiated approach to setting JTPA performance standards by reviewing: (1) how the Department of Labor's adjustment model works and can be used to set performance standards; (2) the major limitations of the adjustment model; and (3) key issues involved in negotiating performance standards.

THE DEPARTMENT OF LABOR'S ADJUSTMENT MODEL

The Department of Labor has developed an optional statistical adjustment methodology to provide Governors with a systemmatic approach to conforming to the Secretary's parameters for setting SDA performance standards.

The objective of the adjustment methodology is to statistically account for the influence of as many factors that affect performance as possible from the national level.

Early efforts to predict influences that affect performance revealed that even after controlling for client characteristics, program mix, and economic conditions, substantial variations in performance remained unexplained. While factors that could be readily quantified proved important, they were not all-inclusive. Some factors such as the quality of program management were excluded from the model. The basic goal is to hold local program operators harmless for factors over which they have little control such as client characteristics and labor market conditions.

The current adjustment models do not account for all of the variation in local performance, leaving room for further adjustments. Across each of the existing adjustment models, between 12 and 40 percent of the variation of performance is explained in PY85 and up to 50 percent of the variation is explained in the PY86 models. Assuming that some portion of the variation could be attributed to the quality of management, the remainder may be due entirely to randomness or unmeasurable differences, or unmeasured factors that affect performance.

Exhibit B lists the factors that have been included in the Program Year 1985 and 1986 adjustment models for the four adult measures and the three youth measures. As can be seen in the exhibit, depending upon the measure, the models include slightly different varieties of client characteristics and local labor market conditions. The objective of the adjustment models is to statistically estimate the effect of these factors on each of the performance measures and to use these estimates as weights for adjusting performance.

Exhibit C presents an illustrative example of how these weights are used to set standards for PY86. As can be seen, the objective is to calculate the difference between an SDAs factor value and that for the nation. This difference is then multiplied by the value of the individual factor weights derived from the statistical adjustment model. These weighted differences are then summed and added to or subtracted from what is referred to as the National Departure Point, which, in its most simple form, is the average national performance score in PY85, and the performance score adjusted to the 25th percentile in PY86. The end result is an SDAs model-adjusted performance level, which can be further adjusted to account for other important factors not accounted for by the model.

Further adjustments to the model-derived performance standard are subject to the approval of the states. All states, however, must adjust program performance in accordance with parameters established by the Secretary of Labor (described in Chapter I).

EXHIBIT B

Factors Included in DOL PY85 Adult and
Youth Performance Standards Adjustment Models

Local Factors Included in the PY85 Adult Worksheets

Entered Employment Rate	Cost per Entered Employment	Average Wage at Placement
TERMINEE CHARACTERISTICS:		
% Female	% Female	% Female
% 55 Years and Over	% 55 Years and Over	% 55 Years and Over
% Black	% Black	% Black
% Hispanic	% Hispanic	% Hispanic
% Alaskan Native/ American Indian	% Alaskan Native/ American Indian	% Alaskan Native/ American Indian
% Asian/Pacific Islander	% Asian/Pacific Islander	% Asian/Pacific Islander
% Dropout	% Dropout	% Dropout
% Limited English Speaking	% Limited English Speaking	% Limited English Speaking
% Handicapped	% Handicapped	% Handicapped
% Welfare Recipient at Entry	% Welfare Recipient at Entry	% Welfare Recipient at Entry
% UI Claimant	% UI Claimant	% UI Claimant
LOCAL ECONOMIC CONDITIONS:		
Average Wage for Area (000)	Average Wage for Area (000)	Average Wage for Area (000)
Unemployment Rate	Unemployment Rate	Unemployment Rate
	Average Weeks Participated	

EXHIBIT B
(CONTINUED)

Local Factors Included in the PY85 Youth Worksheets

Entered Employment Rate	Positive Termination Rate	Cost Per Positive Termination
TERMINEE CHARACTERISTICS:		
% Female	% Female	% Female
% 55 Years and Over	% 55 Years and Over	% 55 Years and Over
% Black	% Black	% Black
% Hispanic	% Hispanic	% Hispanic
% Alaskan Native/ American Indian	% Alaskan Native American Indian	% Alaskan Native American Indian
% Asian/Pacific Islander	% Asian/Pacific Islander	% Asian/Pacific Islander
% Dropout		
% High School Graduate and Above		
% Handicapped	% Handicapped	% Handicapped
% Welfare Recipient at Entry	% Welfare Recipient at Entry	% Welfare Recipient at Entry
% Single Head of Household	% Single Head of Household	% Single Head of Household
LOCAL ECONOMIC CONDITIONS:		
Average Wage for Area (000)	Average Wage for Area (000)	Average Wage for Area (000)
Unemployment Rate	Unemployment Rate	Unemployment Rate
		Average Weeks Participated

EXHIBIT B
(CONTINUED)

Local Factors Included in the PY86 Adult Worksheets

Entered Employment Rate	Cost per Entered Employment	Average Wage at Placement	Welfare Entered Employment Rate 1/
TERMINEE CHARACTERISTICS:			
% Female	% Female	% Female	
% 55 Years and Over	% 55 Years and Over	% 55 Years and Over	% 55 Years and Over
% Black	% Black	% Black	% Black
% Hispanic	% Hispanic		% Hispanic
% Alaskan Native/ American Indian			% Alaskan Native/ American Indian
% Asian/Pacific Islander	% Asian/Pacific Islander 2/		
% Dropout		% Dropout	% Dropout
% Handicapped		% Handicapped	% Handicapped
% UI Claimant	% UI Claimant	% UI Claimant	
& Welfare Recip- ient at Entry	% Welare Recip- ient at Entry	% Welfare Recip- ient at Entry	
LOCAL ECONOMIC CONDITIONS:			
Average Wage for Area (000)	Average Wage for Area (000)	Average Wage for Area (000)	Average Wage for Area (000)
Unemployment Rate	Unemployment Rate		Unemployment Rate
% Families Below Poverty Level 2/		% Families Below Poverty Level 2/	
Population Density (1000s/sq.mi.) 2/		Population Density (1000s/sq.mi.) 2/	Population Density (1000s/sq.mi.) 2/
	Average Weeks Participated		

EXHIBIT B
(CONTINUED)

Local Factors Included in the PY86 Youth Worksheets

Entered Employment Rate	Positive Termination Rate	Cost per Positive Termination
TERMINEE CHARACTERISTICS:		
% Female	% Female	% Female
% 14-15 Years	% 14-15 Years	% 14-15 Years
% 18-21 Years 2/		
% Black	% Black	% Black
% Hispanic	% Hispanic	% Hispanic
% Alaskan Native/ American Indian	% Alaskan Native/ American Indian	
% Asian/Pacific Islander		
% Dropout	% Dropout	% Dropout
% Student 2/	% Student 2/	
		% High School Graduate 2/
% Post High School Attendee 2/	% Post High School Attendee 2/	% Post High School Attendee 2/
% Handicapped	% Handicapped	% Handicapped
% Offender 2/	% Offender 2/	% Offender 2/
% Welfare Recipient at Entry	% Welfare Recipient at Entry	% Welfare Recipient at Entry
LOCAL ECONOMIC CONDITIONS:		
	Average Wage for Area (000)	Average Wage for Area (000)
Unemployment Rate	Unemployment Rate	Unemployment Rate 2/
		Average Weeks Participated

1/ Adjustment models have been developed for this measure for the first time in PY 1986.

2/ New factors in PY86 adult worksheets.

EXHIBIT C

Illustrative Sample of Performance Standard Calculation
(PY86)

PY 86 JTPA Performance Standards Worksheet			A. Service Delivery Area's Name	B. SDA Number
C. Performance Period PY 86	D. Type of Standard [ ] Plan [ ] Recalculated	Date Calculated _____	E. Performance Measure Entered Employment Rate (Adult)	

F. LOCAL FACTORS	G. SDA FACTOR VALUES	H. NATIONAL AVERAGES	I. DIFFERENCE (G MINUS H)	J. WEIGHTS	K. EFFECT OF LOCAL FACTORS ON PERFORMANCE EXPECTATIONS, (I TIMES J)
1. % Female	59.0	52.8	6.2	- .063	- .39
2. % 55 years old and over	1.0	2.9	- 1.9	- .079	.15
3. % Black	45.5	23.8	21.7	- .073	- 1.58
4. % Hispanic	15.0	7.9	7.1	- .022	- .16
5. % Alaskan Native/American Indian	1.0	1.3	- .3	- .010	.003
6. % Asian/Pacific Islander	5.1	2.4	2.7	- .008	- .02
7. % Dropout	30.2	25.0	5.2	- .172	- .89
8. % Handicapped	11.4	9.1	2.3	- .128	- .29
9. % UC Claimant	11.1	10.9	.2	.014	.003
10. % Welfare Recipient	42.0	29.8	12.2	- .252	- 3.07
11. Average Wage for Area ($1000s)	18.2	16.9	1.3	- .653	- .85
12. Unemployment Rate	9.0	8.0	1.0	- .717	- .72
13. % Families Below Poverty Level	6.2	9.4	- 3.2	- .223	.71
14. Population Density (1000s/sq.m.)	7.0	0.6	6.4	.827	5.29

L. Total	- 1.8
M. NATIONAL DEPARTURE POINT	+ 62.4
N. Model-Adjusted Performance Level (L + M)	60.6
O. Governor's Adjustment	To be determined
P. SDA Performance Standard	

Source: U.S. Department of Labor, Office of Strategic Planning and Policy Development; Guide for Setting JTPA Title IIA Performance Standards for PY 86, Washington, D.C.

NOTE: This worksheet is taken from the PY86 DOL adjustment model. Factors and weights differ between PY85 and PY86. However, the calculations are performed in the same manner.

Although states are not required to use the statistical adjustment model for setting SDA performance, there are several compelling reasons for doing so. First, the model provides the most objective means for accounting for the influence of readily quantifiable factors on local performance. Second, the model introduces a high level of consistency and equity since all SDAs both within and across states can be evaluated using the same methodology and data. Third, the model neutralizes the positive and negative effects of a variety of factors on performance and allows SDAs to target their resources to those who need it most. Fourth and last, the use of the model focuses attention on who JTPA is able to serve well and who it is not. The model is based on actual prior performance and indicates the effects of certain demographic groups or economic conditions on performance.

For example, the negative influence of women, blacks and handicapped, on the entered employment rate suggests that added attention must be given to these groups to serve them successfully in programs. The same is the case for several other demographic groups such as high school dropouts. Thus, use of the model facilitates adjustments of performance standards based on target populations and program approaches.

MAJOR LIMITATIONS OF THE ADJUSTMENT MODEL

Although the adjustment methodology designed by the Department of Labor to establish performance standards has many advantages, it also has some limitations. These limitations define the bases for negotiation and further adjustments to the model-derived performance levels. Each is discussed separately below.

Selected Subgroups and/or Certain Terminee Characteristics are not Accounted for by the Model

This model limitation is actually two separate issues--one dealing with groups of participants, and the other with individual terminee characteristics:

Unmeasured Differences Among Program Terminees are not Accounted for by the Model

Individually, certain terminee characteristics which affect performance are not accounted for by the model. Some characteristics of individuals affect their potential to work and earn an income. On one hand, demographic characteristics such as age, sex, and race capture the effects of employer preferences for different types of employees. On the other hand, human

capital attributes such as education, experience, health, basic skills, and training measure the effects of the quality of labor on both the likelihood of employment and the type of employment defined in terms of earnings and promotional opportunity. When attempting to explain differences in individual earnings and employment levels, it is important to account for as many of these characteristics as possible.

Because statistical adjustment models are limited to data that can be collected for all SDAs and that which can be reasonably quantified, they primarily account for a standard set of demographic characteristics (e.g., age, race, sex) and only a limited set of human capital attributes. Factors such as basic skill levels, health, and experience are not included because they are difficult to measure and data are not available on a national basis. This does not mean that they are unimportant. Rather, studies have shown that these factors contribute to the employment and earnings of participants. As a result, they should be accounted for in a performance standards framework provided that they are measurable and supported by relevant data. (See note 1).

For example, a young high school dropout with limited work experience and basic skills in reading and arithmetic will be difficult and relatively expensive to serve because he/she has limited functional literacy and little if any work experience. While the adjustment model will account for educational status and age, it will not fully capture the person's readiness to participate successfully in a program. It could be that to serve this youth, a program must make a substantial investment to help overcome the range of barriers faced in the labor market. Since the model only accounts for a portion of these barriers, it may predict too high an entered employment rate, and a cost level well below that necessary to make a permanent improvement in the employability and earnings of this youth.

Most JTPA administrators and planners can readily list important characteristics of their participants that affect labor market success but are not controlled for in the adjustment model. Many of these may be partially controlled for by other factors in the model. In many cases, however, data are not available to correct for the problem. First, many determinants of employability and earnings are not readily measurable, such as motivation. Second, data are not consistently collected on the state and local levels. Third, even if both of these issues could be resolved, it is difficult to determine the degree of independent influence of these additional factors on program performance. If states and SDAs are to overcome this shortcoming of the adjustment models, substantial attention must be given to additional data collection and deliberation over the extent to which performance will have to be further adjusted.

Selected Subgroups of the Terminee Population are Excluded from the Model

Various groups have historically exhibited different prospects for future employment and earnings. Data show that men fare better than women; young adults fare better than older adults; and whites fare better than non-whites. The models used to adjust SDA performance factors account for many of these demographic characteristics. Other important terminee characteristics and local economic conditions that affect labor market success are not, however, included. (See note 2).

Teenage mothers and displaced homemakers are examples of groups that face distinct barriers to successful labor force participation, but are excluded from the adjustment models. Although JTPA is to be targeted upon these and other groups, SDAs and PICs determine most in need of services, the exclusion of these subgroups from the adjustment model may create disincentives to serve them. Their service needs are among the greatest, their likely service costs are among the highest, and their influence on program performance is likely to be negative. To serve them in large numbers may thus represent a risk that is too high for many administrators, given JTPA's emphasis on performance and the levels required to be eligible for receipt of six percent incentive funds.

Addressing this limitation of the adjustment model is similar to the case of unmeasured differences among participants. While most JTPA practitioners can easily cite target groups who are excluded from the model, it is more difficult to specify the degree to which their exclusion actually affects performance. This issue will require added attention if further adjustments are to be made to the model-predicted performance scores.

Youth Employment Competencies May Not Be Adequately Accounted for by the Model

In developing adjustment models for the positive termination rate and the cost per positive termination, considerable concern surfaced regarding their validity. While the attainment of youth competencies has been included as a positive termination in PY84/85, they are not reported separately in the Job Training Partnership Act Annual Status Report (JASR) for the same period. (See note 3). For PY85, the attainment of youth employment competencies is not included in the youth models. As a result, the youth measures of the positive termination rate and its cost is driven primarily by the entered employment rate, and any adjustment models may misrepresent the true relationships between the factors included in the model and this performance

measure. The models for PY85 then do not adequately represent youth who may have other goals than entering employment.

Youth competencies are, however, an important program outcome and these are reflected in the DOL PY86 adjustment models. Youth employment competencies focus upon basic and job-related skills, partly capture what was referred to earlier as "unmeasurable terminee characteristics."

The PY86 adjustment models account for the attainment of youth employment competencies to some degree. The PY85 JASR did not have a separate item for youth employment competencies. However, the Job Training Longitudinal Survey (JTLS)--a survey of 192 SDAs--does collect this information. By using the JTLS data on youth employment competencies, the Department of Labor has derived the positive termination rate and cost measures for PY86.

The information from the JTLS does not specify how many of the 192 SDAs had reported youth employment competencies and whether those SDAs were representative. Therefore, although youth employment competencies are now accounted for in the PY86 adjustment model, some adjustments (upward for instance on positive termination rate and costs) may still be necessary for those SDAs that have a fully developed competency system in place. For SDA's that are still developing a system, the PY86 models may suffice, or depending on program designs, positive termination rate may need to be adjusted downward.

Differences in the Structure of Local Labor Markets are Not Accounted for in the Average Wage Adjustment Model

Wages of an area are determined by several factors, including its geographic boundaries and mix of industries and occupations. For example, workers with similar skills may earn less if they work in a rural rather than an urban area. Similarly, wages for comparable skills vary across industries as well as occupations. To the extent that an SDA has a disproportionate share of certain types of industries or to the extent that only a segment of industries or occupations are within the practical reach of JTPA participants, its wage expectation may well deviate from the area average.

The 1985 adjustment model used to calculate the wage standard for Title II adult programs included two labor market variables, the unemployment rate, and average area wage. Although both variables account for substantial variation in the placement wages of SDAs, they may not always accurately reflect the

placement wage potential of an area. Two additional variables were introduced in PY86--percent of families with income below the poverty level and population density.

Furthermore, the types of jobs available to JTPA participants may represent only a sub-set of all jobs in a local area. If these jobs pay less than the average wage, then further adjustments may be required.

Extreme Service Levels Produce Less Precise Model Performance Estimates

The statistical adjustment models for PY85 and PY86 are based upon average SDA performance. In certain instances the models may predict performance expectations that are extreme in value when compared to those of other SDAs. These may be legitimate expectations given the conditions faced by the SDA. In other instances, SDA factor values (e.g., percent female, or the unemployment rate) may also be so large or small as to be deemed extreme in value. In these cases, it may be necessary to make further adjustment to the model-derived performance levels particularly if more than one factor is "considered extreme."

In its Program Year 1985 and 1986 Guide for Setting Title II-A Performance Standards, the Department of Labor identified those instances under which either factor values or model-derived performance scores or both may be considered extreme. The extreme model-derived performance scores and factor values presented in Exhibit D are taken from these guides and may be used by states and SDAs to determine whether or not additional adjustments will be necessary. The model-derived performance scores indicate the range within which 98 percent of the SDAs expected performance scores would fall given the distribution of SDA factor values that existed in transition year 1984 (October 1, 1983 through June 30, 1984) for Program Year 1985, and Program Year 1984 (July 1, 1984 through June 30, 1985) for Program Year 1986. The extreme factor values reflect the lowest one percent and the highest one percent values as reported by SDAs in the most recently available reporting period.

Unexpected Events are Not Accounted For in the Model

Unexpected events in local labor markets can either positively or negatively affect program performance. If, for example, a large employer closes during the program year, it may diminish

EXHIBIT D

PY85 Extreme Model-Derived Performance Scores and Extreme Values of Local Factors for Adult and Youth Measures

PY85 EXTREME MODEL-DERIVED PERFORMANCE SCORES

	EXTREME VALUES	
ADULT STANDARDS	EXTREMELY LOW	EXTREMELY HIGH
Entered Employment Rate	Less Than 40%	More Than 71%
Welfare Entered Employment Rate	Less Than 21%	More Than 72%
Cost Per Entered Employment	Less Than $1,925	More Than $5,980
Wage at Placement	Less Than $3.50	More Than $5.65
YOUTH STANDARDS		
Entered Employment Rate	Less Than 10%	More Than 57%
Positive Termination Rate	Less Than 60%	More Than 86%
Cost Per Positive Termination	Less Than $1,075	More Than $5,800

PY85 EXTREME VALUES OF LOCAL FACTORS FOR ADULT MEASURES

LOCAL FACTOR		
Percent Female	Less Than 26%	More Than 78%
Percent 55 Years Old and Over	--	More Than 20%
Percent Black	--	More Than 87%
Percent Hispanic	--	More Than 84%
Percent Alaskan Native/American Indian	--	More Than 15%
Percent Asian/Pacific Islander	--	More Than 30%
Percent Dropout	Less Than 6%	More Than 52%
Percent Limited English Speaking	--	More Than 32%
Percent Handicapped	--	More Than 28%
Percent UI Claimant	--	More Than 33%
Percent Welfare Recipient	Less Than 5%	More Than 67%
Average Wage for Area (000)	Less Than 11.8	More Than 22.5
Unemployment Rate	Less Than 4%	More Than 18%
Average Weeks Participated	Less Than 4	More Than 28

EXHIBIT D (CONTINUED)

PY85 EXTREME VALUES OF LOCAL FACTORS FOR YOUTH MEASURES

LOCAL FACTOR	EXTREME VALUES	
	EXTREMELY LOW	EXTREMELY HIGH
Percent Female	Less Than 28%	More Than 70%
Percent 14-15 Years Old	--	More Than 39%
Percent Black	--	More Than 94%
Percent Hispanic	--	More Than 90%
Percent Alaskan Native/American Indian	--	More Than 14%
Percent Asian/Pacific Islander	--	More Than 32%
Percent Handicapped	--	More Than 43%
Percent Dropout	--	--
Percent High School Graduate	--	--
Percent Welfare Recipient	--	More Than 90%
Percent Single Head of Household	Less Than 1%	More Than 32%
Average Wage for Area (000)	Less Than 11.8	More Than 22.5
Unemployment Rate	Less Than 4%	More Than 18%
Average Weeks Participated	Less Than 4	More Than 27

EXHIBIT D (CONTINUED)

PY86 EXTREME MODEL-PREDICTED PERFORMANCE SCORES

	EXTREME VALUES	
ADULT STANDARDS	EXTREMELY LOW	EXTREMELY HIGH
Entered Employment Rate	Less Than 47%	More Than 77%
Welfare Entered Employment Rate	Less Than 43%	More Than 60%
Cost Per Entered Employment	Less Than $2,300	More Than $6,400
Wage at Placement	Less Than $3.50	More Than $5.70
YOUTH STANDARDS		
Entered Employment Rate	Less Than 21%	More Than 62%
Positive Termination Rate	Less Than 65%	More Than 86%
Cost Per Positive Termination	Less Than $2,100	More Than $5,300

PY86 EXTREME VALUES OF LOCAL FACTORS FOR ADULT MEASURES

LOCAL FACTOR		
Percent Female	Less Than 28%	More Than 78%
Percent 55 Years Old and Over	--	More Than 14%
Percent Black	--	More Than 89%
Percent Hispanic	--	More Than 84%
Percent Alaskan Native/American Indian	--	More Than 17%
Percent Asian/Pacific Islander	--	More Than 28%
Percent Dropout	Less Than 7%	More Than 51%
Percent Handicapped	--	More Than 30%
Percent UI Claimant	--	More Than 28%
Percent Welfare Recipient	Less Than 5%	More Than 69%
Average Wage for Area (000)	Less Than 12	More Than 24
Unemployment Rate	Less Than 3%	More Than 17%
Average Weeks Participated	Less Than 6	More Than 33
Population Density*	--	-- (Max. = 7)
Percent of Families Below Poverty Level	Less Than 3%	More Than 25%

PY86 EXTREME VALUES OF LOCAL FACTORS FOR YOUTH MEASURES

LOCAL FACTOR		
Percent Female	Less Than 31%	More Than 71%
Percent 14-15 Years Old	--	More Than 34%

EXHIBIT D (CONTINUED)

LOCAL FACTOR	EXTREME VALUES EXTREMELY LOW	EXTREMELY HIGH
Percent Black	--	More Than 95%
Percent Hispanic	--	More Than 93%
Percent Alaskan Native/ American Indian	--	More Than 16%
Percent Asian/Pacific Islander	--	More Than 25%
Percent Handicapped	--	More Than 50%
Percent Student	--	More Than 76%
Percent Dropout	Less Than 4%	More Than 59%
Percent High School Graduate or More	Less Than 13%	More Than 79%
Percent Welfare Recipient	--	More Than 60%
Percent Single Head of Household	--	More Than 31%
Average Wage for Area (000)		
Unemployment Rate		
Average Weeks Participated	Less Than 6	More Than 32

PY86 EXTREME VALUES OF LOCAL FACTORS FOR WELFARE MEASURES

LOCAL FACTOR		
Percent 55 Years Old and Over**	--	More Than 6%
Percent Black**	--	More Than 96%
Percent Hispanic**	--	More Than 80%
Percent Alaskan Native/American Indian	--	More Than 22%
Percent Dropout	Less Than 7%	More Than 61%
Percent Handicapped**	--	More Than 26%

*Because population density is capped, there are no extreme values at the high end of the distribution.

**Where local factors have extreme values at only the high end of the range, any value below this will be considered reasonable. No range indicates that there are no values considered to be extreme.

anticipated employment opportunities for participants and adversely affect an SDA's ability to achieve its planned performance standards. In contrast, the completion of new development projects midway through the program year can have a positive influence on planned performance. Because unexpected events can affect program performance, they are legitimate items for consideration when conducting the annual review of performance.

Unexpected events are difficult to isolate and to relate to program performance. States and SDAs should be careful in the use of this item, and should ensure that appropriate documentation is provided.

KEY ISSUES IN PREPARING TO NEGOTIATE PERFORMANCE STANDARDS

To this point, the performance standards adjustment models and their chief limitations have been reviewed. The strengths of the models have been contrasted with their major limitations in order to identify important areas that states and SDAs may wish to consider to further adjust the model-derived performance scores.

A critical point is that program performance can best be viewed within the context of employability development, where the full range of factors that can affect participants' future employment and earnings is taken into account when setting standards. While the existing adjustment model accounts for some factors, there are several that it does not address. Basic skills and job-related skills are among the factors not included in the model but which remain important when planning a service strategy for the economically disadvantaged.

Prior to engaging in a process to further adjust performance standards, it is important to focus upon the policies and procedures that will be used to support a negotiated approach to setting program performance. The first such issue is identifying the areas upon which negotiations will be based. While the previous section identified several reasons which may be relevant for further adjusting performance standards, they may or may not be relevant to each state and SDA. States and SDAs must therfore begin by considering each of the limitations of the adjustment models, their applicability to local programs and performance, and the types and magnitude of effects that may occur. This developmental work will identify basic areas that states and SDAs will use as the basis for negotiating performance standards.

Second, states and SDAs must determine how negotiation will be documented and used to further adjust the model-derived performance levels. For example, it may be relatively easy to agree that unmeasured differences among participants are affecting performance. It is less easy, however, to quantify and correct for this, and its effect on plannned performance.

Third, states and SDAs must establish planning guidelines that will determine additional data and reporting requirements needed to support negotiation, as well as the roles and responsibilities of the parties involved in the negotiation.

Finally, the negotiation process itself should be open, non-political, and unbiased. In this way, states may ensure that SDAs have been handled consistently and fairly.

CHAPTER IV

The Negotiation Process

INTRODUCTION

In the training and employment field, negotiation occurs all the time. State staff negotiate with each other and their State Job Training Coordinating Councils to develop policies and programs as well as with SDAs to determine coordination plans and best approaches for effectively serving eligible participants. Similarly, SDAs negotiate with service providers over the terms and conditions of contracts and about policies and procedures for serving participants.

In the case of performance standards, negotiation serves as a bridge between the goal of achieving high levels of performance and the realities of providing services to the economically disadvantaged.

This chapter provides a discussion of important issues that states and SDAs will face when negotiating performance standards. In instances where states elect to incorporate negotiation into performance standards setting, the issues reflect a set of decision points that must be resolved. This negotiation process will define the requirements for SDAs to follow when documenting the need for negotiation as well as the conditions under which proposals for further adjustments will be accepted.

In those cases where SDAs decide to initiate negotiation, the issues presented in this chapter represent the major planning tasks they will have to address to prepare a clearly documented proposal for further adjustments to the model-derived performance standards. For both parties, negotiating expected levels of performance must be based on a well-documented case that shows how targeting, programmatic problems, and remedies affect performance outcomes.

The issues discussed in this chapter include:

(1) documenting the basis for negotiation,

(2) developing tools for quantifying adjustments to the model-predicted performance scores,

(3) negotiation and its relationship to six percent incentive funds,

(4) establishing a framework to support a negotiation process, and

(5) state and SDA roles and responsibilities in establishing a negotiation process.

DOCUMENTING THE BASIS FOR NEGOTIATION

The first step in developing a negotiation process is to determine the areas upon which further adjustments to the model-derived scores will be based. While the previous chapter identified several potential areas for negotiation (unmeasured differences among program participants, exclusion of population subgroups from the model, etc.), states and SDAs must determine which, if any, are most applicable to their own programs. This will entail careful documentation of the problem by the SDA and its relationship to program design and outcomes, as well as its prevalence across and within SDAs in a state.

Exhibit E presents the key elements of this process by identifying the tasks necessary to identify and ultimately document each of the potential areas of concern that are not adequately accounted for by the model. States and SDAs may choose a documentation process to address their own unique circumstances.

Targeting Flexibility

The fact that certain participants characteristics are unmeasured (and perhaps unmeasurable) and the exclusion of selected population subgroups from the adjustment models can potentially create disincentives to serve more disadvantaged participants. Because certain terminee characteristics that affect employability and earnings are not included in the adjustment model, predicted performance levels may not accurately reflect the true level of difficulty of providing services. SDAs and program operators may, therefore, perceive that the risks of providing certain services to various population groups are too great to take in light of the connection between performance standards and incentive/sanction policies.

The first step in identifying the existence of this type of problem is for SDAs to determine those groups of individuals who are either not served well in existing programs or not served at all. It is important to specify the particular characteristics of

EXHIBIT E

Matrix of Planning Tasks Necessary to Identify and Address Model-Related Issues

Program and Targeting Issues	Model Limitations	Tasks I	Tasks II	Tasks III	Tasks IV
Groups not served and/or participant characteristics not accounted for in the model	Perceived limited targeting flexibility	Determine the barriers these groups face in the labor market	Determine likely program success rates in serving excluded groups and participants with unmeasured characteristics that influence performance	Determine the reasons for not serving such groups	Project service levels to these groups and determine program design, cost and performance standards implications
PROGRAM INTENSITY Planned durations and unit costs of existing program services	PROGRAM INTENSITY Does not account for quality and type of services provided	Determine insufficiency of program duration and cost for serving current participants and/or those not served	Determine more desirable program duration and costs and establish their consistency with participant needs	Determine targeting implications and service levels of new participants in light of revised program mix	Determine cost and performance implications of potential program and/or targeting revisions
Planned program mix	No program mix variable	Determine deficiency of program mix for current clients or those not able to serve	Determine more desirable program mix and establish its consistency with the needs of prospective clients	Determine targeting implications of revised program mix and service plans for new participants	Determine cost and performance implications of potential program and/or targeting revisions
Status of youth competency systems and relative emphasis of employment-oriented programs and development-oriented programs	Youth employment competencies may not be adequately accounted for	Identify the program and performance implications of the omission of youth competency attainment from positive termination rates	Determine revised program mix aimed at attainment of youth competencies	One option is to develop youth competency systems	Determine implications for positive termination rate
Extreme factor values and/or model-predicted performance scores	Extreme service levels produce less precise model performance estimates	Determine reasons for poor fit between the model and SDAs performance	Determine implications for performance standards		
Unexpected events and their effect on performance	Unexpected events in local area unaccounted for	Determine links between such events and planned performance	Determine implications for performance standards		

participants that are not adjusted for in the model such as earnings potential, motivation, functional literacy, and basic skills.

The initial identification of these characteristics and/or subgroups will be sufficient for establishing this as the basis for further adjustments. It will also be necessary to link the unique service needs of these groups/characteristics to expected performance levels which would have to be higher or lower than that for the average program participant. Importantly, the extent of this difference will have to be large enough to influence the SDA-wide performance standards levels. If changes in SDA-wide performance levels cannot be demonstrated, adjustments will be difficult to propose and for states to approve (and unnecessary!).

Thus, after identifying who is not served well or not served at all, SDAs must determine and document the special labor market barriers and service needs of these groups and demonstrate that they are substantively different from those of the average participant. This would then lay the foundation for negotiating performance levels beyond those provided by the adjustment model.

Next, SDAs must determine the expected performance levels that could be achieved for these groups and, on the basis of this, why they cannot be served within the existing performance standards and program mix. Several sources of information exist for identifying expected success rates of these "hard to serve" groups. One source is the local or state management information system. It is likely that over time, states and SDAs have served the types of participants they believe are most difficult to help. By reviewing the experience that previous programs have had in serving these population groups, it is possible to estimate likely performance outcomes for them.

Another source of information on expected performance is the experience of other programs in the community. The evaluation and program analysis literature that may be available can provide evidence regarding the effectiveness of alternative program strategies for the economically disadvantaged. Local school systems--which have access to student characteristics, performance, and dropout data--are another source of information for determining what can be expected of programs that attempt to serve very disadvantaged youth.

Based on this information, the final step is to summarize the program design and performance standards implications of increasing service levels to these difficult-to-serve participants. If, based on analysis, it can be documented that the participants face unique barriers in the labor market, have special

service needs that cannot be adequately addressed by the current program mix and within the model-derived performance standards, then the basis for further adjusting performance standards will have been demonstrated.

Program Intensity

Under ideal circumstances, the mix, duration and/or costs of program services offered to current and prospective participants would reflect the type and level of effort needed to improve their future employability and earnings. However, because of limited resources, tradeoffs must be made between unit cost expenditures and the types of participants served.

The current adjustment models attempt to inject objectivity into this tradeoff by compensating for the positive and negative effects associated with serving particular types of individuals. States and SDAs may become constrained in the types and intensity of services they provide if they believe that they can serve only those groups included in the model.

Although the two cost models adjust for the duration of participation, this adjustment provides only a partial solution to serving particular groups. One reason for this is that the factor weight for weeks of participation in the youth model is relatively small. (With a value of 53.3 in PY85, programs are compensated only $53 for each additional week of participation.) Since this is an SDA-wide program average, it accounts for the addition of long-term program interventions to the total mix of services and provides adjustment when programs are substantially lengthened for a majority of participants. However, it does not permit reorienting targeting and mix of youth services to those who have a variety of short- and long-term intervention needs.

To illustrate this point, consider an average duration of 9 months or 39 weeks. According to the PY85 adjustment model, this would add $2,067 to the national departure point of $3,362, for an average cost per youth positive termination of $5,429. However, an SDA planning this type of program mix and performance level would be only one percent of all SDAs in the country. According to Department of Labor data for the Program Year 1985 model, 99 percent of all SDAs served youth for less than 27 weeks. If SDAs wish to plan and deliver this longer type of program, they should carefully document the results of these programs. States may want to encourage these more costly programs because of longer term benefits to youth. To do so, states should consider allowing much higher costs than predicted by the model. In view of this, negotiation may well be necessary to support such an approach.

A similar, although less extreme situation, exists for adults. In this case, the value of the weight for the duration of participation is 113.3 for PY85--thus offering more relief when increasing the length of stay in the program.

Nonetheless, the average duration for all adult programs in the PY85 model was 12 weeks, and 99 percent of all SDAs served adults in programs that lasted for less than 28 weeks.

As a result of this problem, states and SDAs may well face certain constraints when planning their program mix, duration, and costs. To establish this program intensity issue as a basis for negotiation, five basic steps can be relied upon:

Step One. Identify the current program mix in terms of program type, planned duration of participation for each program type, the unit cost of program services, and planned program outputs (such as the entered employment rate and positive termination rate).

Step Two. Examine the relationship between current programs and the unmet needs of current participants and/or of those not served because of perceived model under-adjustments.

Step Three. On the basis of the previous step, document the insufficiencies that exist in current program intensity. As before, this process will require a careful examination and documentation of the employment and earnings needs of prospective participants.

Step Four. Revise the service strategy to overcome those barriers that otherwise could not be addressed.

Step Five. With this revised program mix, specify or modify targeting objectives and identify the implications for achieving model-derived performance levels.

If, based on these tasks, it were demonstrated that program planning and targeting were constrained and that a revised service strategy was necessary to address the needs of existing and/or prospective participants, the basis for negotiation will have been documented.

Connection Between Performance Standards and Attainment of Youth Competencies

With the passage of JTPA, youth competencies were recognized as legitimate and important program outcomes. While the ultimate goal of serving youth is the attainment of productive employment, awareness of the world of work, basic education skills, job-specific skills, and work maturity are important components of a service strategy aimed at alleviating the problems disadvantaged youth face in the labor market.

Since JTPA was implemented, youth competency performance data have not been collected as a separate line item on the JTPA Annual Status Report (JASR). As a result, these data were not included in the positive termination rate model for PY85.

Since the PY95 model does not include attainment of youth employment competencies, the total positive outcome attained by SDAs with a PIC-certified youth employment competencies program may actually increase the positive outcomes achieved depending upon the types of youth served. On the other hand, total cost may rise as well. An SDA will need to know not only how many youth terminated by attaining youth employment competencies, but how this affected the length of the program in comparison to the length of program for all youth served.

The Department of Labor has encouraged states and SDAs to design and implement PIC-certified competency-based systems and to measure performance on the basis of these systems. This system will yield the benefits of increased targeting flexibility, increased program design latitude, and the ability to chart a carefully developed and comprehensive service strategy for youth. The PY85 positive termination rate and cost model--which does not include attainment of youth competencies--would have to be further adjusted by states to reflect the program design and targeting implications of a new or increased emphasis on youth employment competencies and on employability development-oriented programs. (Two approaches have been developed and are described in the Department of Labor's Technical Assistance Guide for Setting JTPA Performance Standards for PY85.)

Once a competency-based system is in place, it will be necessary for SDAs to determine their programming and targeting implications and to compare them with those of programs aimed primarily at job placement. The objective is to draw out the important differences between both and to use them as the basis for making necessary revisions to the job training plan. This then, will begin to identify how the positive termination rate and its cost should be revised. Costs may go up, but the positive termination rate may increase as well. If it can be shown that the presence of youth competencies affects participant

targeting, program design, or expected success on positive terminations, then it can be effectively argued that negotiation is necessary.

The DOL PY86 youth positive termination rate model accounts for the attainment of youth competencies. These data have been collected for PY86 in the Job Training Longitudinal Survey (JTLS). It may be useful to use the PY86 model as part of the negotiation process for PY85. When recalculating its actual PY85 performance, an SDA could compare the 1985 and 1986 models for both costs and positive termination rate. The rate provided by the 1986 models can provide a numerical base line from which to begin negotiation.

However, the 1986 model recalculated standards should not be viewed as a panacea. As discussed earlier in this section, how youth employment competencies affect program targeting and design is central to the negotiation. The 1986 model accounts for some of these decisions, but certainly not all.

Another adjustment consideration needs to be addressed when discussing the 1986 model for positive termination rate. Many PICs have chosen not to have PIC recognized competencies or have chosen not to use their systems for positive termination purposes, but rather for program design purposes. If the PIC does not have a system of youth competencies in place, the 1985 models probably are sufficient for the purpose of determining standards for PY86.

Whereas the concern in 1985 was to adjust for those SDAs that had youth employment competencies where the PY85 model did not account for this variable, the issue when using the 1986 model will be how to account for not having a system of youth employment competencies. For SDAs without youth employment competencies, the 1986 model may predict a higher positive termination rate and higher cost.

Adjustment Model for Average Wage Standard Does Not Account for Differences in the Structure of Local Labor Markets

Since JTPA is intended to improve the employment and earnings of participants, programs are encouraged to achieve maximum possible wages at the time of job placement. The average wage at the time of the job placement is intended to reflect the quality of jobs that states and SDAs are able to secure for their participants.

Placement wages are, however, influenced by several factors, including the characteristics of clients served and the condition and structure of local labor markets. To the extent that differences in these factors may vary within and across SDAs, the modeling ability to produce a given wage at the time of placement will also vary. Consider, for example, two SDAs, one serving very large shares of women and the other serving very large shares of men. Since men typically earn more than women, we would expect average wages of program terminees to reflect this difference. Unless these and other differences between SDAs are controlled for, it will not be possible to compare their wage performance in a consistent and equitable manner.

The statistical adjustment model used to set placement wage standards attempts to control for these differences in two ways. First, the model includes a series of variables designed to capture differences in the characteristics of clients served. These variables focus on age, race, sex, education, welfare status, and other related variables. The model also attempts to control for differences in the condition and structure of local SDA labor markets.

The structure of the labor market is more difficult to measure because of differences in the nature and type of available jobs, wage paid for various jobs, etc. For example, since different industries and occupations pay different wages for the same type of worker, such differences across SDAs could influence the wage rate at which they place participants. Similarly, wages tend to vary between urban and rural areas for the same type of workers. Unless these and other differences in the structure of local labor markets are taken into account, estimating SDA performance measures may not be possible.

The PY86 statistical adjustment model includes four variables designed to measure the condition and structure of the labor market. The first two variables are the unemployment rate and the percent of families with income below the poverty level. These variables represent prevailing local economic conditions. The latter two variables--the average area wage and population density--are designed to capture structural differences in SDA labor markets. These variables capture some, but not all, factors that affect the labor supply and therefore only partially represent the structure of local labor markets.

The model has been criticized because it uses Bureau of Labor Statistics data which include all types of occupations including both high paying jobs such as for CEOs and low paying entry-level jobs. Some argue that the critical issue is how to adjust

the average wage data to now realistically represent the jobs JTPA trainees may be qualified to hold. Rural and urban wage differences, as well as variations in the types of occupations available to JTPA participants in various SDAs may require that additional adjustments be made to the model-derived wage standard for PY85.

For PY86, the rural-urban issue has been addressed to some extent by the addition of the factor "population density." The nature of the adjustment that may be needed for PY 86 is related to occupations available to JTPA clients in either a rural or urban area. If the jobs available to JTPA participants are predominantly entry level, then an adjustment to the model-derived wage standard may be appropriate. (The real question is how the local labor market is so different from the national structure that it warrants an adjustment.)

Extreme Service Levels Produce Less Precise Model Performance Estimates

The statistical adjustment models are based upon average SDA performance. In certain instances the model may predict performance expectations that are extreme in value when compared to those of other SDAs. These may be legitimate expectations given the conditions found by the SDA. In other instances, SDA factor values (e.g., percent female, or the unemployment rate) may be so large or small as to also be deemed extreme in value. In these cases, it may be necessary to make further adjustment to the model-predicted performance levels particularly if more than one factor is "considered extreme."

Adjustments for Unexpected Events

In training and employment programs, changes in local labor markets such as plant closings, the inability to recruit planned-for target groups, and the opening of new development projects are among the types of unexpected events that can potentially affect achievement of planned performance levels. Since these factors cannot be anticipated at the outset of the program year, further adjustments to performance levels must be done at the close of the program cycle.

It should be stressed that although unanticipated events may be difficult to use as the basis for negotiation (especially when they occur within the realm of environmental factors) SDAs should carefully monitor the behavior of all unexpected events as they occur and document how, if at all, they are affecting planned performance.

For example, if sudden plant closings occur in a local area, to be considered as the basis for negotiation they will have to be clearly tied to the planned outputs and especially placements of the program and used to demonstrate why the established performance levels could not be achieved.

An additional example would be the inability to recruit a planned for target group. This may adversely affect cost (if recruitment efforts were extensive) but other standards may be adjusted by the model itself if the groups actually served are not unusual.

Summary

Effective negotiation is based upon a carefully developed and informed process of documenting the employability needs of the eligible population and external factors that affect it. This process serves as the basis for negotiating performance beyond that predicted by the statistical adjustment model and can help to improve the effectiveness of programs for the economically disadvantaged.

States wishing to take a negotiated approach to setting performance standards will have to design a set of policies aimed at documenting the need for further adjustments to the model-predicted performance scores. These policies will provide guidance to SDAs by identifying the requirements necessary to substantiate the need for negotiation. They will not specify how adjustments are to be quantified, but will lay out the planning and development tasks that will be necessary before any further adjustments are to take place.

SDAs may wish to take the initiative and propose adjustments to their model-predicted performance standards. In these cases, the first task will also be to document the need for such adjustments. Such documentation must clearly link the model-derived performance standards to the SDA's planned program and/or targeting goals and determine whether or not adjustments to the model-predicted performance scores are warranted.

DEVELOPING THE TOOLS FOR NEGOTIATION

Once the basis for negotiation has been established, states and SDAs can engage in the actual process itself. This will require that basic negotiating tools be developed and used to further adjust the model-predicted performance scores. These tools will

have to be selected by the states as part of their negotiation policy or by SDAs who wish to initiate negotiation themselves.

There are two basic types of tools that can be used to further adjust performance standards.

The first type includes a number of methods for quantitatively adjusting performance standards once they are estimated by the statistical model. These methods are most desirable since they can be objectively and consistently applied to all SDAs and to all program operators.

The second type of tool is qualitative in nature and adjusts performance on the basis of one's best understanding of success in the JTPA program. It is not a substitute for quantitative adjustments, but may have to be used if it is not possible to estimate the effect of a particular issue on performance.

Exhibit F presents the available quantitative and qualitative adjustment tools that states and SDAs can elect to use and the areas of negotiation to which they can best be applied. The quantitative tools include:

1. The use of additional performance measures
2. Weighted averages of performance
3. Weighted indices (a legitimate but risky tool)
4. Adjustments to specific standards

There is one qualitative tool, increasing the tolerance intervals, that would be used only if further adjustments could not be quantified.

Following is a detailed discussion of each of the different adjustment alternatives and the issues to which they can best be applied.

Use of Additional Performance Measures

The use of additional performance measures is one quantitative tool for providing relief from what may be perceived as performance standards that constrain both targeting and program design decisions. If a state or SDA has determined that limitations to the adjustment model constrain its ability to serve certain types of participants or offer certain types of programs, it may consider the use of additional measures.

Several states and SDAs have taken this course and have concentrated on the use of additional input measures of success. These measures have typically been relied upon to facilitate

EXHIBIT F

Established Areas for Negotiation and Potential Negotiation Tools

Established Areas for Negotiation	Negotiation Tools: Quantitative: Additional Performance Measures	Quantitative: Weighted Averages of Performance	Quantitative: Weighted Indices	Quantitative: Adjustments to Specific Standards	Qualitative: Increase Tolerance Levels
1) Unmeasured characteristics and/or excluded population subgroups	•	•	•	•	•
2) Program intensity (duration, costs, mix)		•	•	•	•
3) Positive terminations and youth employment competencies	•	•	•	•	•
4) Average wage at placement vis a vis labor market differences				•	
5) Extreme service levels		•			•
6) Unexpected events				•	•

services to groups which would not otherwise be served or to increase the proportion of a given target group served. In this first instance, some states have already established so called "equity standards" to promote service to groups who may or may not be in the model in relation to their proportion in the eligible population. In the latter case, they have and may include measures that document the extent of services to particular population subgroups such as teenage mothers, displaced homemakers, and participants with limited functional literacy.

Such measures would be developed by identifying the subgroups under question and establishing a service share measure.

There is no reason that additional measures need to be confined to input measures. Output measures of success not already used are also viable options. Additional output measures are useful because they can potentially broaden the perspective on performance and hence increase both targeting and program design options. For example, it has been argued that the sole emphasis on termination-based measures limits the extent to which programs aim to produce lasting effects on the employability and earnings of participants. If post-program measures were also used (prior to their planned use by DOL in 1988), this would shift some of the planning emphasis into the labor market that participants enter once they leave a program. (See note 4.) As a result, programs may become increasingly conscious of the type of designs that are necessary to help participants both obtain and retain employment.

Another alternative is to develop certain output measures for selected subgroups of the population. In this case, rather than relying on input measures or program-wide output measures, additional performance measures can be developed to assess the effectiveness of services to groups that are not usually served. For example, placement rates or post-program retention rates can be used as measures of success for displaced homemakers, or those with limited functional literacy.

In all cases when output measures are used, states and SDAs will have to determine an acceptable level of performance. One option is to approach the problem the same way that the entered employment rate is calculated for adult welfare recipients; that is, using the ratio of the standard for the subgroup (assuming some past experience serving that group) to all groups considered. Another option is to review the level of success of the SDA or other programs in serving the particular subgroup and to use it as the level of expectation. In both cases, it is important to point out that they require estimates of the performance standard for the population subgroup under consideration. Other program experiences or a state's or SDA's management information system are possible

sources for these data.

Once the additional measures are decided upon, it is necessary to determine their importance relative to the existing national measures as well as the relative importance of each of the national measures. Since new measures are being added to offset the documented effects of the existing national measures, it follows that they should receive relatively more importance than at least one of the national measures. The most straightforward approach is to allow SDAs to meet some combination of the total number of performance measures.

The use of additional measures as a negotiation tool has certain advantages. First, it can broaden a program's targeting and design perspective by offsetting the documented effects of the model-derived performance standards. Second, additional measures can allow SDAs to take a more flexible approach to program planning. Third, if the use of additional measures is planned along with incentive funds distribution, it can serve to create consistency in the "messages" that states send to SDAs regarding priorities for the training and employment system.

On the other hand, the use of additional measures does have certain disadvantages. For example, too many performance measures may diffuse and possibly confuse the purpose of providing JTPA services. Further, it is not prudent to establish additional measures for some SDAs within a state but not for others. Therefore, this approach is recommended only for statewide application.

Use of Weighted Averages of Performance

In the case of weighted averages, each performance measure becomes the potential object of negotiation and is adjusted to account for particular limitations of the model. The adjustments are made by weighting the model-predicted score by a value for the same measure determined for the particular population group the SDA does not believe is accounted for.

Thus, an entered employment rate can be adjusted downward and its cost upward to account for services to participants with limited functional literacy. Weighted averages may be difficult to implement since the entire focus of the negotiation is upon one or a few standards and adjustment to them. Weighted averages are, however, a viable approach.

As with each of the negotiation tools, the use of weighted averages would begin with a careful documentation of the principal limitation(s) of the model that is (are) to be addressed and the disadvantages it is causing. In this case,

the limitations would focus primarily upon unmeasured characteristics and excluded population subgroups.

Once the problem and its cause(s) are identified, it is necessary to determine which performance standard(s) are to be adjusted and the expected value for the group(s) not accounted for in the statistical model. With the expected performance value of the particular group(s) calculated, it is then possible to weight the overall performance measure with the following formula:

$$\frac{(TT-NTGT)(PAT) + (NTGT)(PTGT)}{TT} = WP$$

Where:

TT = Total expected number of terminees

NTGT = Expected number of terminees in special group

PAT = Performance standard for all terminees other than members of special group (e.g., EER from worksheet using planned characteristics of regular terminees)

PTGT = Expected performance for terminees in special group

WP = Weighted performance standard for all terminees

As an example, consider an SDA which believes that it cannot effectively serve disadvantaged young adults with limited education unless the model-predicted entered employment rate is lowered. For the next program year, it plans to serve 100 of these participants and place them in unsubsidized employment at a rate of 40 percent. It also plans to serve a total of 500 participants and must, according to the model-predicted score, place them at a rate of 70 percent. In this case, the weighted average calculation would work as follows:

$$\frac{(500-100)(70.0) + (100)(40.0)}{500} = 64.0\%$$

As can be seen, using a weighted average lowers the model-derived placement rate from 70 percent to 64 percent. This basic approach can be used to adjust any of the seven national performance standards.

Weighted averages can also be used to adjust the positive termination rate and its cost, particularly for PY85 when youth employment competencies are not in the model. In this case, the

objective may be to reduce the model-predicted positive termination rate since it is so largely determined by the entered employment rate. This would be accomplished by weighting the model-derived performance score by the share of positive terminations that are planned to attain youth competencies. The benefit of this would be to divert emphasis from placement-oriented programs to developmental programs that emphasized the achievement of specific competencies that youth need to succeed in the labor market. The following formula would be used:

$$(YEER)(SEP) + (AYC)(SEEP) = WPTR$$

Where:

YEER = Youth model-predicted entered employment rate

SEP = Share of youth to be served in employment oriented programs

AYC = Attained youth competency rate

SEEP = Share of youth to be served in employability enhancement programs

WPTR = Weighted Positive Termination Rate

The most critical issue when using weighted performance standards is the ability to determine the expected performance level for the particular group in question. For states and SDAs who have had experience serving such groups, the task may not be so difficult since they can retrieve performance data from their management information systems. In other cases, however, states and SDAs will want to consult other sources such as other local programs, or comparable SDAs for the information, in order to ensure that low performance for special groups is not inadvertently promoted.

This problem, however, will be most evident during the first year of implementation, since at the end of the program year and in future years, data will have been accumulated to measure performance for the groups that consistently receive most attention. Thus, the risk of making a mistake can largely be confined to the initial year of implementation as long as necessary data collection takes place.

Moreover, as long as the adjustment formula is in place, performance standards are re-calculated at the end of the program year when actual data are available. And, assuming that SDAs do not lose sight of achieving their standards for all terminees, they run only a small risk of under performance on account of serving a relatively small number of participants with unique barriers in the labor market.

The SDA could negotiate a planning standard using this method even when no data are available. At the end of the year, if the SDA has served the planned target group as negotiated, the negotiated adjustment to the standard would apply. If the SDA failed to serve the number of individuals in the target group or failed to offer the type of service, a new standard would have to be negotiated.

Use of Weighted Indices of Program Performance

Weighted indices of performance represent one tool for allowing states and SDAs to vary the emphasis on different measures in order to best reflect their particular priorities. These indices can be constructed with the existing performance measures or with additional measures that a state and SDA may wish to add. Weighted indices are similar to the approach many states currently use which weights individual standards to emphasize different policy objectives. The advantage of using an index of performance is that all performance measures can be treated as part of an overall approach to performance rather than treating each of the Secretary's seven measures (and any others the state adds) as separate measures. The weighted index takes all measures and develops an index by adding all the observations of the outcome measures (for example, entered employment, average wage at placement, welfare entered employment for adults) and dividing that total by the applicable cost measure. Since measures for adults and youth are somewhat different, and since youth and adult programs cost may vary significantly, it may make sense to use separate adult and youth performance indices.

The use of weighted indices of program performance could be tied directly to the state's incentive award policy, or use of such indices could exist independently of that policy to determine if performance standards have been exceeded. Weighted indices are simply a composite approach to judging overall performance. The tie to incentive awards could be made easily. Using an index assumes that the greater the ratio attained over "1" the larger the share of the incentive funds an SDA might be eligible to receive.

The weighted indices approach suggested could be used in two main ways:

(1) The first way would be to use a uniform statewide approach so that the weight for each measure within the index would be the same for all SDAs. This is similar to the approach many states now use where each measure may have different weights,

but the same weights are uniformly applied to all SDAs. For example, a state might choose to give the adult measure and youth measures equal weight so that incentive funds are initially divided into two equal pots of money. For the adult portion, the state might choose to emphasize the attainment of the entered employment rate standard and weight it 50 percent. To emphasize increasing earnings, the state might choose to weight the average wage at placement 30 percent, and finally, the welfare entered employment rate might have a weight of 20 percent. (See Exhibit G for an example of how this would work in an index.) The SDA whose ratio on the index is greater than "1" would be considered a superior performer. This has the effect of giving strong emphasis to state-directed policies.

(2) The second method would be to develop individual weights for each measure for each SDA. This would entail negotiating individual weights for each measure with each SDA depending upon their individual circumstances. For example, an SDA might want to trade-off one measure against another so that one measure had more weight than another. This might be the case particularly if they believed that the model was not adequately representing their situation. This could apply whether the state used only the Secretary's seven measures or whether additional measures were used. This individualized approach also gives states the opportunity to negotiate different emphases among standards for each SDA. If the state believed that one SDA needed to improve service to welfare recipients, they could negotiate a greater weight for this standard.

It is important to note that while varying the weights of existing or additional measures provides maximum flexibility, it can become quite difficult for a state to negotiate different weights separately with each SDA in a uniform, equitable, and consistent manner. The possibility exists that states would be vulnerable to complaints and/or legal action from SDAs who believe they were unfairly treated. It should be further noted that the Department of Labor's Employment and Training Administration does not endorse the individualized SDA approach to weighted indices, as it removes the protections afforded by the model. As a result, states should carefully consider the innovative benefits and possible drawbacks of weighting existing or additional measures using indices.

EXHIBIT G

Illustrative Example of an Additive, Weighted Index of Title IIA Adult Program Performance for Two SDAs

(A) Performance measure	(B) Assigned weight of the measure	SDA I (C) Achievement rate	SDA I (D) Achievement rate X weight of measure	SDA II (C) Achievement rate	SDA II (D) Achievement rate X weight of measure
Entered unsubsidized employment	.50	90	45.0	80	40.0
Average wage at placement standard	.30	60	18.0	120	36.0
Welfare entered employment rate	.20	120	24.0	120	24.0
Total value of index of performance		=	87.0		100.0
Value of index of program costs		=	83.3		125.0
Value of Program Index / Value of Index of Costs		87.0 / 83.3 =	1.04	100.0 / 125.0 =	80.0

Definitions:

(1) Entered Unsubsidized Employment: The ratio of the number of participants placed in unsubsidized jobs upon termination to total number of terminations from the program.

(2) Average Wage at Placement Standard: Mean beginning hourly wage of unsubsidized job placements divided by SDA wage standard times 100.

(3) Value of Index of Program Costs: Cost of program per unsubsidized entered employment divided by average cost per unsubsidized placement established as a standard times 100.

However, the organizations which reviewed and contributed to this guide believe that the use of weighted indices is a viable approach which may have the benefit that it can simplify how success against standards is viewed and potentially simplify the incentive award system.

For those states that wish to consider the use of weighted indices, examples and the steps necessary to construct a weighted index of performance are provided.

In order to construct a weighted index of performance the following basic steps would be necessary:

1. Identify all measures to be used to assess performance (including additional ones identified as important but not included among the seven national measures);
2. Determine the model-derived or actual performance standard for each of the measures (depending upon whether the index is being used for planning purposes or to recalculate standards at the end of the year);
3. Develop relative weights for each of the measures that total to 100 percent; or vary the relative measures for each SDA. (See Column B in Exhibit G);
4) Convert the model-derived standard to an "achievement rate." This is a percentage of the model-derived standard which is either planned to be achieved (if planning figures are used) or is actually achieved (if end-of-year actual, recalculated standards are used). (See Column C in Exhibit G);
5) Multiply each of the performance standards by its weight to determine a factor value. (See Column D in Exhibit G);
6) Sum the factor values to estimate the percentage value of the performance index for the rate measures and then divide by the percentage of cost standard attained to determine the composite planned performance level;
7) At the end of the year, recalculate the composite index, using actual data to determine what percentage of the model-derived standard was achieved.

Exhibit G presents an illustration of how a weighted index of performance would work for Title II-A adult programs. In this example, the state has decided to rely only upon the existing national standards.

As can be seen in Exhibit G, the entered employment rate has been given more weight than the other two adult measures. Since all measures in a weighted index approach need to be expressed in terms of percentage, the wage standard is converted to an achievement rate by planned level of performance by the model-derived score (at the beginning of the year) and the actual wage by the re-calculated model-derived score (at the end of the program year). This same type of procedure would be necessary for any other performance measures that are not expressed in percentage terms.

At the outset of the planning process, the value of these "achievement rates" may be equal to, less than, or greater than the agreed upon performance standard level. If this level is set on the basis of the model-derived performance score, then it will equal 100.0. If, however, setting of the standards can occur within the tolerance interval established by the model, then the value can exceed or be less than 100.0.

Once each of the multiplications are complete, the products would be summed to calculate the total value of the performance index. This index is then divided by a cost index which is simply the ratio of the model-derived cost per entered employment to the final cost standard. The result is a total performance score that incorporates all performance standards into one measure that best reflects the priorities of the state and its SDAs. This comprehensive score then becomes the performance standard that is calculated at the beginning of the year on the basis of planned data and at the end of the year on the basis of actual data.

In the present example, SDA II outperforms SDA I in terms of its performance index, owing largely to high achievement on the average wage at placement standard and the welfare entered employment standard. However, once the index of program costs is accounted for, SDA I outperforms SDA II because of its higher levels of efficiency. As should be obvious, the assignment of different weights to each performance standard can have a marked effect on an SDAs performance.

On the basis of this example, it should be clear that the assignment of weights to each performance measure can provide a useful and important tool in negotiating performance and influencing program targeting and design. In the above case, SDA II would be forced to reduce its costs. With the opportunity to negotiate performance measure weights, each SDA can compensate for the limitations of model-derived performance scores by the relative importance that will be given to different measures. States can use the index to address performance problems.

If a state decides that a weighted index of performance will be used as its tool for negotiation, it will also have to determine in what form to implement the weighting scheme. Five alternative options are discussed below:

1. The first option is to limit the index to the existing Department of Labor measures and assign each one a uniform statewide weight as shown in Exhibit G. These weights would be pre-determined by the state or developed in consultation with SDAs. The advantage of this approach is its simplicity. New measures and standards would not have to be developed and individual negotiation with SDAs over relative weights would not be necessary. Moreover, the approach would provide some relief from the model-derived score since some standards could be weighted more heavily than others.

   The drawback to this approach is that it may not fully account for the unique circumstances faced by any particular SDA. Since both the performance measures and their weights are fixed, the type of "further adjustment" needed is assumed to be the same across each SDA.

2. The second option would be for states to negotiate individual weights for each of the Department of Labor's performance measures for each SDA. This provides more flexibility but still limits the index to the existing measures. This allows some trade-off among standards depending upon an individual SDA's problem with the standards, but it may not offer complete relief to an SDA who wishes to serve a specific target group or use a unique intervention strategy.

3. Add a fixed set of additional measures for all SDAs and assign each one a fixed statewide weight.

4. Vary the additional measures across SDAs but develop pre-assigned weights for them by fixing the combined relative weight of the existing Department of Labor standards; or

5. Vary the use of both additional measures and weights across SDAs.

To introduce more flexibility into the negotiation process, states can consider one of the three latter alternatives. Each of these options offers substantially more latitude for negotiation, but they complicate the process and require more careful consideration of consistency of application.

Again, states are cautioned that these alternatives are a riskier approach to adjusting standards.

In the event that states elect to add measures, they will need to determine which additional measure to incorporate into the performance index. These additional measures should be selected on the basis of their relationship(s) to the particular model shortcomings to be addressed or to the goals states choose to emphasize. If done on a statewide basis, this determination can be made in conjunction with SDAs each year. If done on an individual SDA basis, the state could limit the choice of additional measures to a fixed set or allow the SDA full/partial flexibility of choice. States could give the SDA the option of proposing their own measures. In either case, SDAs would be required to demonstrate (as discussed previously in this Guide) the link between the model shortcoming, the problem caused, and the relief provided by the newly proposed performance measure.

Similarly, the establishment of weights on a statewide or SDA basis should reflect the relative priority needed for each measure in order to address model shortcomings or perceived problems. If done statewide, states should consider basing their decisions on the collective input of all SDAs. If done on an individual SDA basis, each SDA would have to demonstrate why the weighted adjustment and its particular value were necessary. If this were not possible, each measure would receive equal weight.

It is important to point out that the adoption of a weighted performance index does not have to guarantee that additional measures or different weights will always be used by each SDA. A state could adopt a varying SDA weight and additional measures approach and offer it as an opportunity. Unless it could be demonstrated that relief from model-predicted scores was warranted and addressed by the proposed additional standards and/or weights, each of the Department of Labor's standards would be used with equal weights. There is, in effect, a check and balance system directly linked to careful documentation of the reason for an adjustment.

Exhibit H provides an example of a recalculated index using different weights for two SDAs for each measure. In the example, SDA I has negotiated a higher weight for the welfare entered employment rate because of its plan to emphasize service to welfare clients. The SDA did not exceed its model-derived standard at the end of the year for the welfare entered employment measure, but it did improve the average wage standard. The SDA did well on the ratio because it did very well on the cost measure. (The SDAs actual performance was 83.3 percent of the model-derived standard.)

EXHIBIT H

Illustrative Example of an Additive, Weighted Index of Title IIA Adult Program Performance for Two SDAs

(A)	SDA I			SDA II		
Performance measure	(B) Assigned weight of the measure	(C) Achievement rate	(D) Achievement rate X weight of measure	(B) Assigned weight of the measure	(C) Achievement rate	(D) Achievement rate X weight of measure
Entered unsubsidized employment	.30	90	27.0	.20	90	18.0
Average wage at placement standard	.20	120	24.0	.50	120	60.0
Welfare entered employment rate	.50	70	35.0	.20	70	14.0
Total value of index of performance	=		86.0			92.0
Value of index of program costs	=		83.3			125.0
Value of Performance Index / Value of Index of Costs	$\frac{86.0}{83.3}$	=	1.03	$\frac{92.0}{125.0}$	=	73.6

Definitions:

(1) Entered Unsubsidized Employment: The ratio of the number of participants placed in unsubsidized jobs upon termination to total number of terminations from the program.

(2) Average Wage at Placement Standard: Mean beginning hourly wage of unsubsidized job placements divided by SDA wage standard times 100.

(3) Value of Index of Program Costs: Cost of program per unsubsidized entered employment divided by average cost per unsubsidized placement established as a standard times 100.

SDA II negotiated different weights for the measures with average wage at placement being the "most important" measure. In this example, the SDA did well on the measure weighted most heavily, but it did less well on the overall index because its actual cost per entered employment significantly exceeded its recalculated model-derived cost standard. Even though the SDA achieved the same percentage of the model-derived standard for all of the outcome measures, the weights in its performance index combined with its relatively poor performance against the cost measure meant that the SDA did relatively poorly on the overall index of performance.

Use of Adjustments to Specific Measures

Another tool that may be used to make further adjustments beyond the Department of Labor's adjustment model is to adjust a specific performance measure. One primary example of this tool is to adjust the average wage at placement, based on variables in the structure and conditions of a local labor market. In this case, a scaling technique may be used to account for the under- or over-adjusted model-derived wage standard.

The first step is to document variation in the structure of labor markets as an area for negotiation. This would involve obtaining inter-industry or inter-occupational data to determine if the population density adequately captures differences in wages paid in urban and rural areas and whether the average wage figure used in the adjustment model and wages paid in dominant industries were different from those reported in the SDA or whether wages paid in dominant occupational areas were different from those reported in the SDA. Since within county differences are not corrected in this process, the extent that such differences can be identified establishes a valid area for negotiation.

The three most viable sources of information on wages paid by industry, occupation, or urban and rural area include: 1) the 1980 Census; 2) area wage surveys conducted by the Bureau of Labor Statistics (BLS) and available from BLS regional offices; and 3) ES 202 data which contain information on total employment and wages paid by industry. Each of these data sources is available for public use and are collected through acceptable statistical methods.

Review of Data Sources for Adjusting
the Average Wage at Placement (See note 5.)

There are several different sources of wage-related data that can potentially be used when attempting to adjust the model-derived average wage at placement standard. The major sources that

states and SDAs may wish to consider include:

1. The 1980 Census
2. The Employment and Wages (ES 202) Program
3. Area wage surveys conducted by the Bureau of Labor Statistics
4. The Job Bank data maintained by the Employment Service
5. Locally initiated surveys

The 1980 Census. The Census can be a very useful source of information on local area employment, earnings, and wages. Every ten years, the Census Bureau collects detailed information on population, housing, and employment related characteristics. These data are then made available for public use in several different forms, differentiated primarily by either subject matter or size. For the sake of analytic efficiency, a 1 in 100 and a 1 in 1,000 sample tape is made available. These tapes contain detailed information on individual employment, earnings, and wages experiences that can be used to generate local area estimates of such measures as average wages, industry composition, and occupational employment. As such, these data represent a viable source of information for states and SDAs interested in further adjusting the average wage at placement standard.

There are, however, certain practical shortcomings with taking this approach. The first is that acquisition of the data for selected analyses of area wages can be difficult unless the state or SDA has the computer facilities needed to process the data. Although hard-copy publications of Census data are available, they typically do not include detailed data on a local basis consistent with the boundaries of SDAs. In addition, while each state maintains a Census Data Center, the types of services provided by them vary across states and may not include those needed to obtain the requisite information.

The Employment and Wages (ES 202) Program. The Employment and Wages Program, commonly referred to as the ES 202 Program, is one of several federal-state cooperative programs. Using quarterly reports submitted by state employment agencies, the Bureau of Labor Statistics summarizes employment and wage data for workers covered by the unemployment insurance laws and for civilian workers covered by the program of Unemployment Compensation for Federal Employees. This program and its data set provide a comprehensive and accurate source of employment and wage data, by industry and at the national, state, and local levels.

Since each state maintains and processes its own 202 data, it is possible for states and SDAs to secure the information for performance standards purposes. There are, however, certain

weaknesses of this approach. First, the level of detailed data varies and will have to be checked on a state-by-state basis. Second, self-employed persons in retail trade, construction, and service industries are not included, although this should pose little difficulty for performance standards purposes. Third and last, data processing capabilities vary by state and will have to be carefully checked prior to attempting to obtain the data.

Area Wage Surveys. Area wage surveys are conducted by the Bureau of Labor Statistics, usually for selected occupations in selected areas of the country. On an occupational basis, these data are very accurate and can be useful for further adjusting average wage standards to account for occupational differences. However, these data are not typically available on an SDA basis and do not cover all areas of the country.

Job Bank Data. The Employment Service maintains records of all jobs listed with it, including the occupation and wage rate. Although these data can be of potential use in adjusting the average wage performance standard, their chief shortcoming stems from their lack of representativeness. Since only a small proportion of all job openings are listed with the Employment Service, these data cannot be relied upon to generate accurate estimates of occupational wages.

State and SDA Management Information Systems. State and SDA management information systems retrieve, among other data items, information on the placement wages of former participants. As such, they represent one potential source of data for adjusting the average wage at placement. Like Job Bank data, however, these data also present problems of representativeness since they are confined to the placement outcomes of JTPA participants and not all resident workers within an SDA.

Locally Initiated Surveys. The last potential source of wage data is locally initiated surveys. In this case, the state and/or SDA would initiate a survey of local employers to determine the average wages paid to workers. While this approach can yield important and accurate wage data, it will have to be conducted within the constraints imposed by the statistical sampling and data collection requirements.

Regardless of the source, it is necessary to obtain the wage data necessary to measure the difference between the average area wage and that considered more appropriate for the SDA. If, for example, it were being argued that differences between rural and urban areas were not adequately represented in the adjustment model, then wage data for both geographic units would have to be obtained. The same case would prevail for industry and/or occupational wage structure.

Once the data were obtained, two similar, but somewhat different scaling techniques could be used. The first would be to divide the average wage for the unaccounted for labor market structure (e.g., rural area), by the average wage for the SDA used in the adjustment model. The result would be a fraction that could be multiplied by the model-derived wage standard to derive a new scaled version of the same standard. In essence, the model-derived wage standard would be scaled by the extent to which the wage associated with the unaccounted for labor market structure was greater or less than the average area wage.

As an example, consider an SDA located in a rural area of a state that has demonstrated that its wages are considerably below those in the area used to calculate the wage level used in the model. (Remember, population density is in the model and represents rural/urban differences.) Further assume that the rural average wage is $3.50, that the area wage used in the model was $4.50, and that the model-derived performance score was $4.25. In this case, the ratio of the rural to area wage would be: $3.50/$4.50 = 77 percent. By multiplying 77 percent by the model-derived performance score of $4.25, the scaled wage standard would be set at $3.27. The same procedure would hold for any other adjustment made as a result of labor market structure.

The chief disadvantage of this approach is that it does not account for the SDA's wage position relative to that of the country. Since the adjustment model fits SDA performance behavior to a national model, deviations from national relationships may be more appropriate to use. Thus, rather than relying on a SDA's deviation from the area average, the deviation expressed above as a ratio would be scaled in the same manner that the service to youth standard is calculated. Thus, the 77 percent discussed above would be divided by the ratio of average wages in all rural areas in the U.S. to the average wage in the U.S.

As an example, assume that the average wage in rural areas of the U.S. is $3.75 and that the U.S. average wage is $5.00. Dividing these two results in a ratio of 75 percent. If this 75 percent is divided into the 77 percent from above, the adjustment would be 1.02. Thus, because there was greater proximity between rural to area wages in the SDA than there was in the U.S., the SDA's wage standard would be adjusted upwards.

This adjustment to the average wage at placement is only one example of an adjustment to a specific measure. States and SDAs may identify other measures which require hand-tailoring to fit local circumstances. In some cases, states and SDAs may want to negotiate "trade-offs" of a higher standard on one measure for a lower standard on another measure.

Increasing the Tolerance Intervals

As discussed earlier, the tolerance intervals of each of the performance measures represent the degree of imprecision in the models. To some extent, this imprecision is due to those factors that affect performance but are unaccounted for in the model.

The process used to increase the tolerance intervals is very arbitrary. The same increase in the tolerance intervals would be used statewide for all SDAs. One way to increase the tolerance range would be based on past experience within the state. The state could calculate the Standard Deviation in performance for the prior year for the measure in question among all SDAs and use that (or a portion of that deviation) as the increased tolerance interval for the specific measure.

This method is, however, among the least desirable since there is not a quantifiable method to determine how much the intervals should be changed. As a result, changes to the model's tolerance intervals are best used when no other means of adjustment are available. This might be the case for extreme values and unexpected events that cannot be readily linked to a specific model shortcoming. Increasing tolerance limits might be an appropriate fix for extreme values because relativity increases as predicted values are further from the mean.

Negotiation and Six Percent Incentive Funds

Under Title II-A, six percent of the funds are available as an incentive for achieving good performance and to provide technical assistance to those areas not receiving incentive funds. In several instances, states have elected to use a portion of their 6 percent funds to encourage services to the "hard-to-serve" target groups that would not otherwise be served. This is intended, in part, to address any disincentives that may be introduced by the current performance standards, including the model-derived scores. Although the use of incentive funds may increase services to selected target groups, it will not provide relief from what may be limitations introduced by the model-derived performance scores. The reason for this is that while an SDA may receive incentive funds for achieving an additional standard (such as an input standard), it still must achieve its other performance standards. Thus, incentive funds alone should not be expected to address the limitations caused by model shortcomings. Rather, incentive funds should be planned in conjunction with the development of negotiation strategies to form a consistent approach to performance standards achievement.

The necessity of jointly planning both activities is also evident from the negotiation tools presented earlier. For this reason, there needs to be a high degree of consistency between each. Take for example the addition of measures as a negotiation tool. If the same additional measure(s) is (are) used for incentive funds, it may be necessary to set two different standards, or a range, the lower one for meeting performance and the higher to be eligible for incentive awards.

ESTABLISHING THE FRAMEWORK FOR NEGOTIATION: AN OVERVIEW

Basic Elements of a Negotiation Framework

The establishment of performance standards is critically linked to an understanding of the employability development process and the conditions under which it takes place. Factors that describe this process have been incorporated into a series of statistical adjustment models designed to neutralize their effects on an SDA's potential performance capability. These factors may not capture the full range of variables that affect the employment and earnings of program participants. Negotiation should identify these additional factors and cast them in an employability context so that the performance potential of any SDA can be more fully described. This requires an understanding of the problems eligible participants face in the labor market and how they relate to both program design and performance outcomes.

It is also important to stress that negotiation must be an open, public process. The need for negotiation must be articulated publicly and understood by all parties involved.

Sound planning and management information systems are a critical ingredient for informed negotiating. Both systems assist in identifying any shortcomings of the statistical adjustment models and developing revisions to both model-derived performance scores and program targeting and design.

Exhibit E presented the necessary key steps to demonstrate the program relevance of each model limitation and the need for negotiation. These tasks largely embody the program planning process and should not represent an extra effort carried out just for performance planning. Rather, they should be part of the on-going JTPA planning process that can be drawn upon as needed. For negotiation to proceed, particular programmatic problems and potential solutions must be linked.

Sound planning needs supporting data. In addition to labor market data that may be obtained from institutional sources and from special surveys, important information is contained in the management information system. This system is the repository of information on local and state program experiences to date. It represents a potentially rich source of knowledge from which the data needed to support negotiation and plan future programs can be retrieved.

For example, several states and SDAs have raised concern over the exclusion of selected population sub-groups from the statistical adjustment models that remain important in explaining performance. As has been discussed, this programmatic problem can become the basis for negotiation only after it is demonstrated to be causally linked to a program's ability to perform satisfactorily. One way to demonstrate this is to rely upon previous years' program data to identify the extent to which these individuals have been served, in what programs, and at what level of success.

If, for example, negotiation focused upon unmeasured characteristics such as functional literacy, then this information will have to be collected and used both to monitor performance and re-calculate performance at the end of the program year. Thus, the management information system must be structured to capture the key components of the employability development process. In most instances, data beyond that required for national reporting must be routinely collected.

The management information system serves as the basis for monitoring on-going performance. Once a negotiated performance level is agreed upon, data on the areas upon which performance was based must be retrieved.

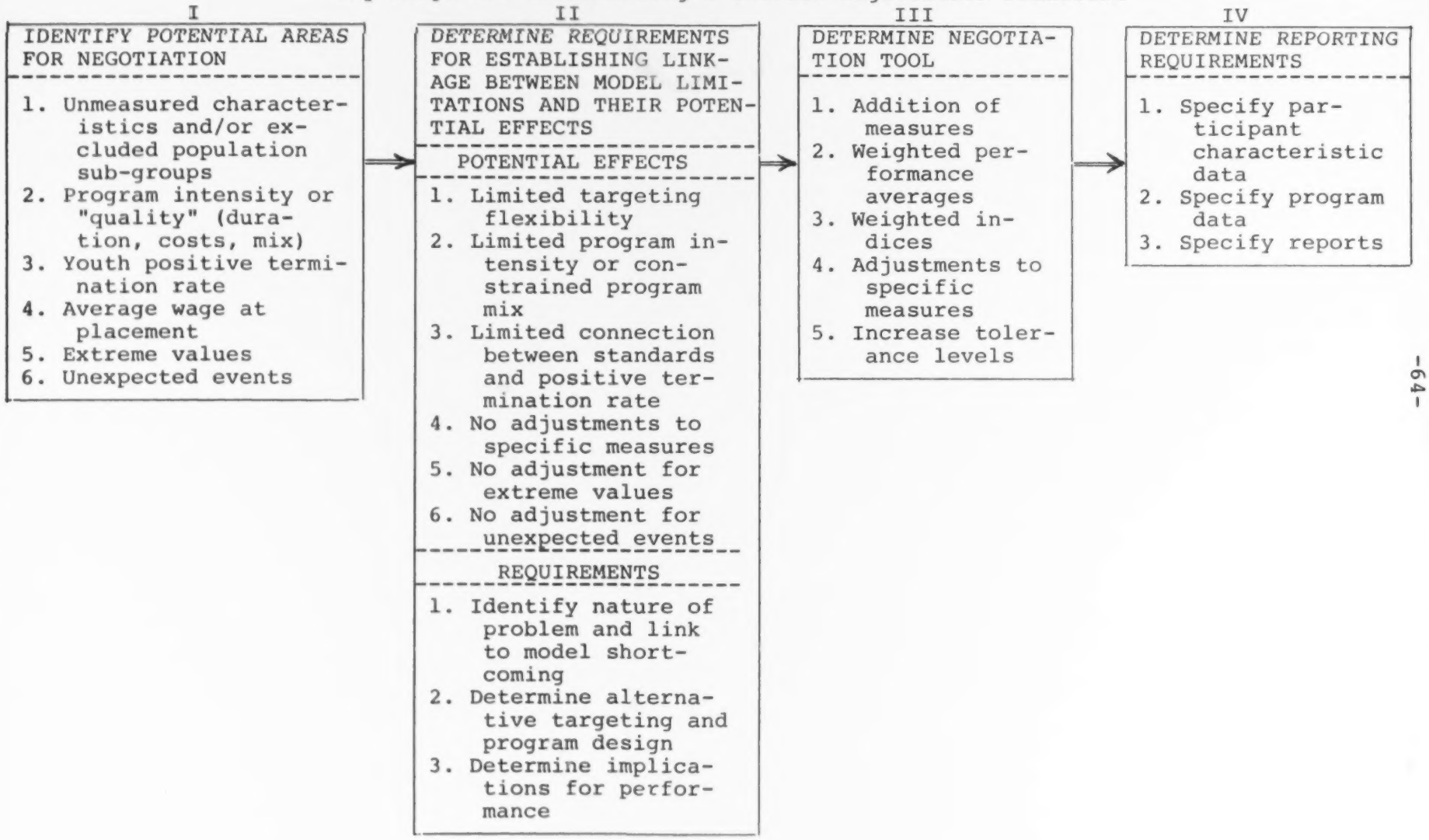
Exhibit I presents a schematic diagram of the steps for establishing a unified negotiation framework that adheres to the principles outlined thus far. These steps would form a state's negotiation policy and an SDA's plan to document the need for negotiation.

The first step will be to determine the areas that will be considered for negotiation. These may include, but are not necessarily limited to: (1) unmeasured characteristics; and/or excluded population sub-groups; (2) program intensity or "quality" (duration, costs, mix); (3) youth positive termination rate; (4) average wage at placement; (5) extreme values; and (6) unexpected events.

The second step is to specify how the problems that may be caused by the standards (e.g., limited targeting flexibility)

EXHIBIT I

Key Steps for Establishing a Unified Negotiation Framework


I
IDENTIFY POTENTIAL AREAS FOR NEGOTIATION
1. Unmeasured characteristics and/or excluded population sub-groups
2. Program intensity or "quality" (duration, costs, mix)
3. Youth positive termination rate
4. Average wage at placement
5. Extreme values
6. Unexpected events
II
DETERMINE REQUIREMENTS FOR ESTABLISHING LINKAGE BETWEEN MODEL LIMITATIONS AND THEIR POTENTIAL EFFECTS
POTENTIAL EFFECTS
1. Limited targeting flexibility
2. Limited program intensity or constrained program mix
3. Limited connection between standards and positive termination rate
4. No adjustments to specific measures
5. No adjustment for extreme values
6. No adjustment for unexpected events
REQUIREMENTS
1. Identify nature of problem and link to model shortcoming
2. Determine alternative targeting and program design
3. Determine implications for performance
III
DETERMINE NEGOTIATION TOOL
1. Addition of measures
2. Weighted performance averages
3. Weighted indices
4. Adjustments to specific measures
5. Increase tolerance levels
IV
DETERMINE REPORTING REQUIREMENTS
1. Specify participant characteristic data
2. Specify program data
3. Specify reports

will be identified, including their relationship to particular model limitations and their implications for program targeting, design, and performance. The third step necessary for establishing a negotiation framework is to select a tool for further adjusting model-predicted performance standards. Available options include adding new standards, weighted averages, weighted indices, adjustments to specific measures, or increasing the model-derived tolerance intervals. The last step is to determine the data collection and reporting requirements necessary to support continued performance standards negotiation.

Once these basic planning steps have been taken, states and SDAs will be in a position to negotiate performance on a regular basis with the support of both program planning systems and management information systems.

Documentation and Information Sources

Key to the process of performance standards negotiation is sound documentation. SDAs must be able to demonstrate:

1) that a problem exists;
2) how it affects their model-predicted performance, and;
3) to what extent adjustments are necessary.

This documentation requires careful planning and the use of reliable data to support it.

Several reliable data sources are available to support the negotiation process. The most important and promising source is the management information system (MIS), operated either as part of a statewide system or independently by SDAs. This MIS is the repository of current and historical data on the characteristics of participants served, the programs in which they were enrolled, and the types of outcomes they experienced. As such, it can prove a valuable source for documenting constraints encountered in serving certain types of participants and the need for new and/or more extensive designs.

In many cases, however, the existing MIS may not contain the participant characteristic data needed to demonstrate the unique problems faced by selected sub-groups of the population (e.g., teenage mothers, those with limited functional literacy). In these instances, two strategies may be considered.

The first strategy is to modify the MIS to capture the full range of additional data needed to develop an employability

development process for participants. These data would include participant characteristics not included in the adjustment model (i.e., teenage mothers or displaced homemakers). They may also include human capital attributes such as more detailed educational and age data (which serve as a proxy for experience) that may be already routinely collected. Other measures of employability such as basic skill levels, health/disability status, competency levels in world of work knowledge, work maturity, and vocational skills are not typically collected but may also be appropriately added to the MIS and used for documentation.

Complete specification of the full range of additional data for the MIS can best be accomplished by: (1) developing a composite list, (2) assessing each variable in terms of its relationship to employment and earnings and feasibility of collection; and (3) determining those that are most important and practical to obtain.

There are two major advantages of expanding the MIS. The first is that it will provide the basis for monitoring program performance both during and at the end of the year. This will be important in determining the extent of the adjustments to the performance standards. The second advantage is that initial expansion of the MIS will provide the basis for documenting the need for negotiation in future years.

The second strategy for obtaining data when the existing MIS is insufficient is to consult sources of information that will likely contain the requisite data. These include the following:

1. Local school systems which have access to student characteristics, performance, and dropout data;
2. Local labor market data, with particular reference to the problems and barriers faced by population sub-groups;
3. The evaluation and program analysis literature, which can provide evidence regarding the effectiveness of alternative program strategies for the economically disadvantaged; and
4. Data from comparable SDAs, which may be relevant to the local situation.

The information used and conclusions reached will have to be credible and defensible, as specified in the Department of Labor parameters discussed in Chapter 1.

STATES AND SDAs: ROLES AND RESPONSIBILITIES

To this point, the major elements of a negotiation process have been presented and discussed. The end result of this negotiation process will depend on how states and SDAs exercise their respective roles and responsibilities under JTPA.

State Roles and Responsibilities

Under JTPA, states are given responsibility for setting performance standards and establishing planning, data collection, and reporting requirements. In view of this, the natural starting point for negotiation is the state.

If states choose to incorporate negotiation into their performance standards-setting process, they will have to initiate a decision-making framework for resolving several important issues, including: (1) SDA-PIC involvement in decisions about the nature and structure of negotiation; (2) selecting a negotiation tool; (3) documentation requirements both in the job training plan and at the end of the year; (4) data collection and reporting requirements; and (5) an arbitration process for making final determinations over negotiated performance. Each of these issues is discussed below.

SDA-PIC Involvement

In designing a negotiation process, states will first have to determine how they will involve SDAs/PICs in each of the major issue areas. The options include:

1) States may simply determine the policies and procedures themselves, without negotiating with SDAs.

2) States may choose to develop a "bottom-up" process whereby each of the major decision areas would be jointly reviewed by both state and SDA staff and then resolved. The advantage of this approach is that it will build support for the negotiation process and establish a uniform appreciation and understanding of its importance and mechanics.

3) States will need to decide whether they wish to treat all SDAs uniformly throughout the State, or whether they wish to deal with SDAs individually.

4) Another option for states is to establish a request and approval process. SDAs request changes, either through the job training plan or as part of the end of the year recalculation process, and states determine whether or not these changes will be accepted.

Several possible forums exist for states to involve SDAs in this process. One is the State Job Training Coordinating Council (SJTCC) and its committees which have SDA representation. Another is an SDA workgroup or directors group that the state may regularly operate as part of its management of JTPA. In the event that either of these is not possible or appropriate, states may wish to consider establishing a specific SDA workgroup for addressing performance standards negotiation.

Selecting a Negotiation Tool

Once states decide that negotiation is appropriate, they will have to determine the specific adjustment strategy or strategies that they will use to modify the model-derived performance scores. Because the adjustment selected will influence the types of documentation requirements, data collection, and reporting that will be necessary, it should be decided early in the planning process.

Five basic adjustment tools have been presented for consideration. (Other tools may certainly be used, if states so choose.) The five options presented here include: 1) the addition of performance measures; 2) the use of weighted averages of performance; 3) the use of weighted indices; 4) adjustments to specific measures (i.e., average wage at placement); and 5) increasing the tolerance levels established by the adjustment model. Exhibit J presents the major advantages of each of these alternatives.

It is important to note that there is no one correct method for states to choose. Given the strengths and weaknesses of each alternative, the one most appropriate for specific state use should be selected. States may wish to allow SDAs to choose among the negotiation tools or decide to use any one (or more) of the tools statewide for all SDAs.

EXHIBIT J

Advantages and Disadvantages of Alternative Adjustment Tools

Adjustment Tool	Advantages	Disadvantages
1. Additional measures	1. Simple to design 2. Ease of Implementation 3. Allow for targeting standards on particular groups 4. Useful for statewide application	1. Does not provide relief from potentially adverse effects of model shortcomings
2. Weighted averages of performance	1. Limits negotiation to only those standards under consideration 2. Can address both target group and program intensity (mix) adjustments 3. Useful for individual SDA application	1. Focuses on a single measure separately
3. Weighted indices	1. Focuses on composite performance picture 2. Offers Maximum flexibility to states and SDAs 3. Useful for statewide application	1. Most complex to design and implement 2. May promote inconsistencies or inequitable treatment of some SDAs versus others 3. May make states vulnerable to challenges
4. Adjustments to specific measures (i.e., average wage at placement)	1. Useful for individual SDA application 2. Accounts for local differences (in labor market conditions, etc.)	1. May create inconsistencies among states and/or SDAs
5. Increase tolerance levels	1. Simple to implement 2. Useful for individual SDA application	1. Lacks objectivity 2. Non-quantitative 3. May create difficulties in resolution of negotiation

Documentation Requirements

Although a state may decide to incorporate negotiation into its performance standards-setting process, there is no reason to expect that all SDAs will have their model-predicted performance adjusted. Such adjustments will only be warranted if they can document how the problem relates to performance outcomes. The overall requirements necessary to substantiate the need for negotiation consist of resolving three issues. The first is a specification of the areas that states will consider for negotiation.

The second issue is the development of policies to determine whether negotiation within the various areas is warranted. States will need first to specify those documentation requirements that are essential to negotiation. States may wish to consider the matrix outlined in Exhibit E as the foundation for their planning guidelines or may design other similar ones. It is important to emphasize that effective documentation will require establishing systemmatic links between the particular problems SDAs believe they have, model-derived performance, and proposed changes to both program client groups and performance.

The third issue is the delineation of appropriate data sources for use by SDAs. States will need to be assured that the data used by SDAs are of sufficient quality to support the need for negotiation. As discussed earlier, one reliable source of data is the management information system which reflects actual program experience statewide.

In several instances, however, the MIS may not contain the data SDAs may need to substantiate negotiation. In these cases, SDAs may choose to use data and/or findings from local school systems, from local labor market information sources, or from the evaluation literature.

Data sources are also important for quantifying adjustments to the model-predicted performance standards. In the cases of additional performance measures and weighted averages, estimates of either new performance measure standards or adjusted current standards must be made. As above, to ensure that the proposed SDA performance standards are credible, states should require guidelines governing the types of data that can be used.

Here too, the MIS, local labor market information, local program or school system data, or the evaluation literature can be used. The manner in which they will be used is governed by

the particular adjustment tool and should also adhere to the parameters for judging the acceptability of the data source itself.

Data Collection and Reporting Requirements

The establishment of performance standards is the beginning of an annual ongoing process of program reporting and monitoring. Just as the performance standards are monitored during the program year, any adjustments to them as well as the basis for these adjustments, also need to be monitored. Since the basis for negotiation will often depend upon data not yet included in the MIS, states will have to consider requiring the collection of such data on the local level and its reporting on a regular basis. The addition of new data collection requirements should take place early in the development of a negotiation policy. Once states have determined the areas they will consider for negotiation and the particular negotiation tool(s) they will use, the implications for data collection can be addressed.

To a large extent, these additional data requirements can be incorporated into the existing MIS insofar as participant characteristics are concerned. To the extent that unexpected events or unique features of local labor markets are included, SDAs would be required to document them at the end of the year.

The addition of new data collection requirements will allow states (and SDAs) to monitor program and performance activity in the particular areas which were negotiated. If, for example, performance standards were negotiated to account for disproportionately large shares of services to those with limited functional literacy, then such information would be gathered through the assessment process (i.e., General Aptitude Test Battery (GATB), etc.) added to the MIS and monitored on a continuous basis. This will allow states to determine if SDA plans were implemented as planned, and re-calculate performance at the end of the program year on the basis of actual data.

Establishing an Arbitration Process

Once the basic elements of a negotiation process have been determined, states must determine the manner in which requests for adjustments will be made and resolved. This will consist of a set of policies governing when such requests must be submitted, to whom the requests will be forwarded, how decisions

will be made, and what, if any, appeal process will be followed. It is likely that requests for model adjustments would be sent to the same individuals or groups currently responsible for setting SDA performance standards. This may consist of one person responsible for an SDA or a committee that regularly meets to review performance and make corrective action recommendations.

It is possible that state staff may decide not to approve a request for performance standards adjustments. In these instances, the state will have to decide whether SDAs will have an opportunity for appeal. If the state determines that appeals are desirable, then it must identify the requirements for such appeals, the individual to whom appeals would be made, and how appeals would be processed.

At a minimum, the appeal process requirements should include a clear explanation from the SDA as to why it believed that adjustments were necessary and why state staff did not permit the adjustments.

SDA Roles and Responsibilities

To a large extent, the responsibilities of SDAs will be defined by states negotiation policies. In some instances, SDAs and States will make these decisions jointly. The areas for negotiation, the negotiation tools, reporting and data collection requirements, and the arbitration process will most likely be decided early in the planning process. If SDAs wish to play a part in these decisions, they should so inform the states. If the state has made these decisions unilaterally, it will be the responsibility of SDAs to adhere to these requirements in developing a request for adjustments to the model-derived performance scores.

In some instances, states may decide not to develop formal negotiation policies and SDAs will have to take the initiative. In these instances, the same decisions regarding documentation and reporting and data collection will have to be made by the SDA and then followed in the development of an adjustment request.

One issue that is unique to SDAs is the involvement of PICs. As is the case with other planning and policy responsibilities, any request for adjustments to the model-derived performance scores must be approved first by the local PIC.

SDAs and PICs must assume the responsibility for documenting the need for an adjustment and determining how much adjustment may be warranted. There are other responsibilities that SDAs and PICs must consider: collecting data on a proposed adjustment is important. In addition, the PIC and SDA must monitor performance and ensure that either the type of service and/or the target group documented as being underserved is actually served.

States will not grant an adjustment negotiated during the planning stage if the group targeted or service planned does not materialize.

REFERENCE NOTES

1. See, for example:

Comptroller General, Labor Market Problems of Teenagers Result Largely from Doing Poorly in School, General Accounting Office, Washington, D.C., March 1982.

National Commission on Excellence in Education, A Nation at Risk: The Imperative for Educational Reform, April 1983.

Sum, Andrew, Educational Attainment, Academic Ability, and the Employment and Earnings of Young Persons in the United States: Recent Trends and Findings of Recent Research, Center for Labor Market Studies, Northeastern University, Boston, Ma., 1983.

Taggart, Robert, Youth Jobs Programs: The Critical Need for a Comprehensive Strategy, Remediation and Training Institute, Alexandria, Va., 1983.

2. It is important to point out that the Department of Labor's selection of variables to include in the adjustment models has been based on a systematic, comprehensive assessment, including both statistical tests and the advice of state and SDA practitioners. In many cases, variables were excluded because they did not exhibit a statistically significant relationship to the performance measures. In other cases, such as teenage mothers, too few participants were served to warrant data collection and thus were excluded from the model. In still other instances, such as functional literacy, the collection of data was not deemed practical from a national reporting perspective.

3. For PY86, the Performance Standards Advisory Committee has recommended to the Department of Labor that attainment of youth competencies be reported separately in the Job Training Partnership Act Annual Status Report (JASR). However, it can not be incorporated in any model until PY87.

4. At its June 1985 meeting, the Performance Standards Advisory Committee recommended to the Department of Labor that post-program performance measures be used for Title II-A and Title III programs. Data collection would begin in PY86 and standards would be set initially in PY88.

5. Also, two good sources for reviewing in detail, the availability of labor market information and the conduct of local employer surveys include:

- "Issues Related to the Development and Use of Employer Surveys At the Local Level," edited by Paul E. Harrington, et al. Proceedings of the Employer Survey Conferences, February 13, 1980 and April 10, 1980. Center for Labor Market Studies, Northeastern University and Massachusetts Occupational Information Coordinating Committee, August 1981.

- "Labor Market and Occupational Information for CETA Prime Sponsor Policymaking, Planning, and Program Operations," Paul E. Harrington and Andrew M. Sum. Prepared for the National Occupational Information Coordinating Committee, Washington, D.C., by the Center for Labor Market Studies, Northeastern University, Boston, Ma., 1980.

APPENDIX A

PERFORMANCE STANDARDS

SEC. 106. (a) The Congress recognizes that job training is an investment in human capital and not an expense. In order to determine whether that investment has been productive, the Congress finds that— 29 USC 1516.

(1) it is essential that criteria for measuring the return on this investment be developed; and

(2) the basic return on the investment is to be measured by the increased employment and earnings of participants and the reductions in welfare dependency.

(b)(1) The basic measure of performance for adult training programs under title II is the increase in employment and earnings and the reductions in welfare dependency resulting from participation in the program. In order to determine whether these basic measures are achieved, the Secretary shall prescribe standards on the basis of appropriate factors which may include (A) placement in unsubsidized employment, (B) retention in unsubsidized employment, (C) the increase in earnings, including hourly wages, and (D) reduction in the number of individuals and families receiving cash welfare payments and the amounts of such payments. Adult training programs.

Youth programs.

(2) In prescribing standards under this section the Secretary shall also designate factors for evaluating the performance of youth programs which, in addition to appropriate utilization of the factors described in paragraph (1), shall be (A) attainment of recognized employment competencies recognized by the private industry council, (B) elementary, secondary, and postsecondary school completion, or the equivalent thereof, and (C) enrollment in other training programs or apprenticeships, or enlistment in the Armed Forces.

(3) The standards shall include provisions governing—

(A) the base period prior to program participation that will be used;

(B) a representative period after termination from the program that is a reasonable indicator of postprogram earnings and cash welfare payment reductions; and

(C) cost-effective methods for obtaining such data as is necessary to carry out this section, which, notwithstanding any other provision of law, may include access to earnings records, State employment security records, Federal Insurance Contributions Act records, State aid to families with dependent children records, statistical sampling techniques, and similar records or measures.

(4) The Secretary shall prescribe performance standards relating gross program expenditures to various performance measures.

(c) Within six months after the date of the enactment of this Act, the Secretary shall establish initial performance standards which are designed to contribute to the achievement of the performance goals set forth in subsection (b)(1), based upon data accumulated under the Comprehensive Employment and Training Act, from the National Commission for Employment Policy, and from other appropriate sources. In the development of the initial standards under this subsection, the Secretary shall relate gross program expenditures to the accomplishment of program goals set forth in subsection (b)(1).

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(d)(1) The Secretary shall, not later than January 31, 1984, prescribe performance standards for the first program year under this Act to measure the results of the participation in the program to achieve the goals set forth in subsection (b)(1) based upon the initial standards established in subsection (c).

Report to Congress

(2) The Secretary, not later than six months after the completion of the first two program years, shall prepare and submit a report to the Congress containing the performance standards established under paragraph (1) of this subsection, together with an analysis of the manner in which the performance standards contribute to the achievement of the goals set forth in subsection (b)(1), including the relative importance of each standard to the accomplishment of such goals.

(3) The Secretary shall prescribe variations in performance standards for special populations to be served, including Native Americans, migrant and seasonal farmworkers, and ex-offenders, taking into account their special circumstances.

Modification

(4)(A) The Secretary may modify the performance standards under this subsection not more often than once every two program years and such modifications shall not be retroactive.

Report to Congress

(B) The Secretary shall prepare and submit a report to the Congress containing any modifications established under subparagraph (A), and the reasons for such modifications.

Variations of standards

(e) Each Governor may prescribe, within parameters established by the Secretary, variations in the standards under this subsection based upon specific economic, geographic, and demographic factors in the State and in service delivery areas within the State, the characteristics of the population to be served, and the type of services to be provided.

Development of standards

(f) The National Commission for Employment Policy shall (1) advise the Secretary in the development of performance standards under this section for measuring results of participation in job training and in the development of parameters for variations of such standards referred to in subsection (e), (2) evaluate the usefulness of such standards as measures of desired performance, and (3) evaluate the impacts of such standards (intended or otherwise) on the choice of who is served, what services are provided, and the cost of such services in service delivery areas.

(g) The Secretary shall prescribe performance standards for programs under title III based on placement and retention in unsubsidized employment.

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Reorganizaiton plan.

(h)(1) The Governor shall provide technical assistance to programs which do not meet performance criteria. If the failure to meet performance standards persists for a second year, the Governor shall impose a reorganization plan. Such plan may restructure the private industry council, prohibit the use of designated service providers or make such other changes as the Governor deems necessary to improve performance. The Governor may also select an alternate entity to administer the program for the service delivery area.

(2) The alternate administrative entity may be a newly formed private industry council or any agency jointly selected by the Governor and the chief elected official of the largest unit of general local government in the service delivery area.

(3) No change may be made under this subsection without an opportunity for a hearing before a hearing officer.

Appeal

(4) The decision of the Governor may be appealed to the Secretary, who shall make a final decision within 60 days of the receipt of the appeal.